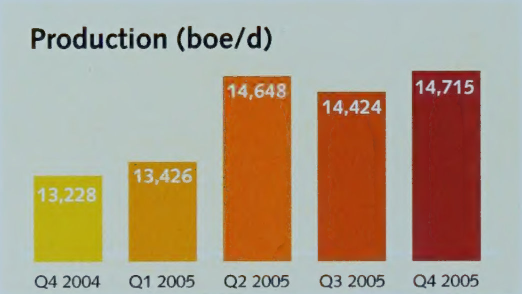
Unlocking Value
2005 FINANCIALS

DAYLIGHT ENERGY

With the Right Combination

CORPORATE PROFILE

Daylight Energy Trust is an actively-managed, opportunity rich trust, focused in the high potential multi-zone areas of West Central Alberta, the Peace River Arch and expanding into our East 5 area. Daylight seeks to leverage its competitive advantage from a proven combination of high-end technical expertise and business execution skills to deliver the maximum value from its high quality property base. Daylight has an extensive multi-year inventory of low risk development and large scale exploitation opportunities combined with a large undeveloped land base. Daylight will pursue selective acquisitions that meet our rigorous evaluation criteria for value and value creation. Daylight trust units are included in the S&P/TSX Income Trust Index and trade under the symbol DAY.UN.



To learn more about Daylight Energy Trust please visit our website at www.daylightenergy.ca

The Annual Meeting of Unitholders of Daylight Energy Trust will be held on Wednesday, May 10, 2006 at 9:00 a.m. in the Sun Life Conference Centre, 144 – 4th Avenue S.W., Calgary, Alberta.

All Unitholders and interested parties are invited to attend.

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MESSAGE TO UNITHOLDERS

Daylight Energy Trust ("Daylight") is very pleased to present its fourth quarter and year ended December 31, 2005 financial and operating results.

2005 HIGHLIGHTS:

CASH FLOW - *INCREASED*

- 2005 Cash flow was $148.9 million ($3.05 per basic unit, $2.79 per diluted unit)
  - Q4 2005 increased 11% to $48.5 million from Q3 2005 of $43.7 million
  - Q4 2005 cash flow per boe up 9% to $35.80 from Q3 2005 of $32.94
- 2005 Operating costs per boe reduced to $9.97 from $10.57 year-over-year
  - Initiatives reduced costs 6% ($0.60 per boe) since inception
- 2005 Operating netback averaged $32.61 per boe
  - Q4 2005 increased 9% to $40.28 from Q3 2005 of $36.86

"Daylight reduced operating costs by 6% while industry peers' costs increased by approximately 15%"

DISTRIBUTIONS - *INCREASED*

- 2005 Cash distributions declared of $72.6 million generated a 49% payout ratio
  - Q4 2005 increased monthly cash distribution 17% to $0.14 per unit from $0.12 per unit
  - Q4 2005 payout ratio reduced to 50% from Q1 2005 of 57%

"Daylight's payout ratio is among the lowest in Trust sector peer group"

- 2005 Total distributions were $1.81 ($1.50 cash + $0.31 Open Range securities)

"Daylight's 2005 unitholder total return was 50% (total distributions + unit appreciation)"

PRODUCTION - *INCREASED*

- 2005 Production volumes averaged 14,307 boe per day during Daylight's first full year of operations
  - Q4 2005 production increased 11% to 14,715 boe per day from Q4 2004 of 13,228 boe per day
  - Q4 2005 Oil and NGLs production increased 60% to 5,642 barrels per day from Q4 2004 of 3,517 barrels per day
  - Q4 2005 Natural gas production decreased 7% to 54.4 mmcf per day from Q4 2004 of 58.3 mmcf per day
- 2006 Annual production guidance provides 19% growth over 2005
  - Daylight maintains previously announced 2006 annual production guidance of approximately 16,750 – 17,250 boe per day

"Daylight's production is balanced - 55% natural gas - 45% oil"

RESERVES - *INCREASED*

- Total proved plus probable reserves increased 52% to 47.4 mmboe from year end 2004 of 31.1 mmboe
    - Per Unit proved plus probable reserves increased 19% to 717 boe per thousand fully diluted units from year end 2004 of 600 boe
- Total proved reserves increased 54% to 33.7 mmboe from year end 2004 of 21.8 mmboe
    - Per Unit proved reserves increased 21% to 510 boe per thousand fully diluted units from year end 2004 of 422 boe
- Reserve Life Index increased 19% to 7.6 years from 6.4 years at inception
    - Proved plus probable reserve additions at $10.96 per boe excluding future development capital ("FDC") and $12.98 per boe including FDC
    - Proved additions were $13.81 per boe excluding FDC and $15.22 per boe including FDC

"Daylight generated a 3.0x recycle ratio with a $10.96 per boe finding, development and acquisition cost"

FINANCIAL FLEXIBILITY - *INCREASED*

- 2005 cash flow of $148.9 million exceeded distributions and capital expenditures
    - $3.8 million surplus after $72.6 million of distributions and $72.5 million of capital expenditures
- 2005 year-end market capitalization increased 89% to $788.9 million from $416.5 million
    - 2005 average trading volumes exceeded 360,000 units per day
    - Included in the S&P/TSX Income Trust Index
- 2005 year-end total debt (net debt plus convertible debentures) declined 15% to $159.2 million from $187.8 million

"Daylight's cash flow exceeded distributions plus capital expenditures"

TECHNICAL EXPERTISE - *DELIVERED 100% DRILLING SUCCESS*

- Achieved 100% drilling success with 71 gross (40.6 net) wells
    - 100% drilling success in Q4 2005 with 34 gross (21.7 net) wells
- Increased operatorship and ownership
    - Daylight owns and operates over 75% of its field operations

"Daylight's operational control delivered excellent results"

BUSINESS EXECUTION SKILLS - ***DELIVERED QUALITY LOW COST RESERVES***

- Daylight completed two strategic acquisitions - Flowing Energy Corporation and Tempest Energy Corp.
    - Daylight's acquisition metrics were extremely attractive averaging $36,000 per flowing boe per day (net of land) vs. an industry average of approximately $56,700
    - $9.78 per proved plus probable boe of reserves excluding FDC vs. an industry average of approximately $17.00
- Unlocked value in minor properties through creation of Open Range Energy Corp. ("Open Range")
    - Distributed Open Range (0.10 common shares and 0.02 arrangement warrants per trust unit) to Daylight securityholders with a deemed net asset value of $0.31 per trust unit
    - Open Range distribution delivered over $0.50 per trust unit based on December 2005 weighted average trading value

"Daylight delivered additional value to unitholders through creative and strategic transactions"

Daylight securityholders continue to benefit from a highly experienced team's ability to create value through execution of its business plan. Our financial strength and flexibility allows us to remain focused on delivering additional value through our capital program and continuing to identify strategic opportunities in 2006.

Daylight's technical team also continues to optimize the excellent potential within our asset base. The team is highly focused on targeted objectives of the reduction of operating costs and reserve additions through drilling and value added exploitation projects. We are actively engaged in managing and upgrading our asset base through acquisitions and innovative transactions. Daylight's Tempest acquisition and Open Range distribution are recent examples of the team's ability to structure and create additional value.

Signed:

"Fred Woods"

Fred Woods
Executive Chairman
March 22, 2006

Signed:

"Anthony Lambert"

Anthony Lambert
President & CEO

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion & Analysis ("MD&A") is dated March 21, 2006 and should be read in conjunction with the accompanying audited consolidated financial statements and notes for the periods ended December 31, 2005 and 2004. The consolidated financial statements and other financial data presented have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). This MD&A should also be read in conjunction with the Annual Information Form which includes complete NI 51-101 reserve disclosure and is available at www.sedar.com and on our website at www.daylightenergy.ca. Daylight Energy Trust ("Daylight" or the "Trust") is an open-ended investment trust created on October 1, 2004 under the laws of the Province of Alberta. Daylight completed a private placement on October 21, 2004 and began active oil and gas operations on November 30, 2004. The following MD&A does compare the year ended December 31, 2005 to the shorter 2004 period, but the focus of the MD&A is on the comparison of the three month period ended December 31, 2005 ("Q4 2005") to the three month period ended September 30, 2005 ("Q3 2005").

Daylight uses the term cash flow to analyze operating performance and leverage. Cash flow as presented and as used in the MD&A does not have any standardized prescribed meaning under GAAP and therefore it may not be comparable with the calculation of similar measures of other entities. Cash flow does not represent operating profit for the period nor should it be viewed as an alternative to operating profit, net earnings or other measures of financial performance calculated in accordance with Canadian GAAP. All references to cash flow throughout the MD&A are based on cash provided by operating activities before changes in non-cash operating working capital and asset retirement expenditures. The reconciliation of net income to cash flow can be found in the consolidated statements of cash flows in the consolidated financial statements. Daylight uses the term payout ratio (defined on a percentage basis as distributions declared divided by cash flow) to analyze operating performance and financial flexibility. Payout ratio as used in the MD&A does not have any standardized meaning under GAAP and therefore it may not be comparable with the calculation of similar measures of other entities. Daylight also uses the term operating netback (defined as petroleum and natural gas revenues less royalties, realized gain (loss) on commodity derivatives, operating and transportation expenses) to analyze operating performance. Operating netback as used in the MD&A does not have any standardized meaning under GAAP and therefore it may not be comparable with the calculation of similar measures of other entities.

All references are to Canadian dollars unless otherwise indicated. Where reserves or production are stated on a barrel of oil equivalent ("boe") basis, natural gas volumes have been converted to a boe at a ratio of 6,000 cubic feet of natural gas to one barrel of oil. This conversion ratio is based upon an energy equivalent conversion method primarily applicable at the burner tip and does not represent value equivalence at the wellhead. Boe's may be misleading, particularly if used in isolation.

Forward Looking Statements - Certain information regarding Daylight set forth in this document, including management's assessment of future plans and operations, contains forward looking statements that involve substantial known and unknown risks and uncertainties. By their very nature, these forward looking statements are subject to numerous risks and uncertainties, certain of which are beyond Daylight's control. Actual results could differ materially from those currently anticipated due to any number of factors including such variables as new information regarding recoverable reserves, volatility of commodity prices, competition from other entities, environmental, legislative, regulatory and political changes along with other factors discussed in our annual information form. Accordingly, no assurance can be given that any events anticipated by the forward looking statements will transpire or occur, or if any of them do, what the impact to Daylight will be.

CREATION OF DAYLIGHT AND PLAN OF ARRANGEMENT

The Trust was formed on October 1, 2004, completed a private placement on October 21, 2004 and began active oil and gas operations through its subsidiary, Daylight Energy Ltd. ("Daylight Energy") as part of a Plan of Arrangement ("Plan of Arrangement") on November 30, 2004. Pursuant to the Plan of Arrangement, Daylight acquired all the shares of Midnight Oil and Gas Ltd. ("MOG") and Vintage Petroleum Canada, Inc. ("VPCI") with certain assets conveyed to a new exploration focused entity, Midnight Oil Exploration Ltd. ("MOX"). The acquisition of VPCI and MOG has been accounted for by the purchase method using fair values as at November 30, 2004. The conveyance of assets to Midnight Oil Exploration Ltd. ("MOX") has been accounted for by the continuity of interests method.

Administrative and Technical Services Agreement

In conjunction with the Plan of Arrangement, Daylight Energy and MOX entered into an Administrative and Technical Services Agreement which provides for the shared services required to manage the activities of Daylight and MOX and to govern the allocation of general and administrative expenses between the entities. Under this agreement, Daylight Energy is the employer on behalf of the parties and receives payment for certain technical and administrative services provided to MOX on a cost recovery basis. The Administrative and Technical Services Agreement has no set termination date and will continue until terminated by either party with three months written notice to the other party. In the interest of strong governance practices, both Daylight and MOX have established independent Technical Services and Corporate Governance committees within their respective Boards of Directors to monitor compliance with the Administrative and Technical Services Agreement.

HIGHLIGHTS

Financial (CDN$ thousands, except unit, per unit and operational data)	**Q4 2005**	Q3 2005	% Change	Periods ended December 31 **2005**	2004
Petroleum and natural gas revenues	**$ 85,615**	$ 76,445	12	**$ 276,573**	$ 17,377
Royalties	**(15,753)**	(13,188)	19	**(49,787)**	(3,662)
Realized loss on commodity derivatives	**(99)**	(350)	(72)	**(390)**	-
Operating expenses	**(13,580)**	(12,981)	5	**(52,073)**	(4,335)
Transportation	**(1,657)**	(1,018)	63	**(4,055)**	(153)
Operating netback	**54,526**	48,908	11	**170,268**	9,227
Interest income	**-**	-	-	**-**	726
G&A – cash charge	**(3,545)**	(2,216)	60	**(9,856)**	(987)
Cash financial charges	**(1,862)**	(2,756)	(32)	**(10,063)**	(1,677)
Cash taxes	**(652)**	(224)	191	**(1,467)**	(92)
Cash flow	**48,467**	43,712	11	**148,882**	7,197
Per unit – Basic	**0.86**	0.91	(6)	**3.05**	0.24
– Diluted	**0.83**	0.81	2	**2.79**	0.23
Net income	**25,447**	20,525	24	**64,060**	1,045
Per unit – Basic	**0.47**	0.45	4	**1.37**	0.04
– Diluted	**0.45**	0.42	7	**1.32**	0.04
Cash distributions declared	**24,316**	17,023	43	**72,585**	9,777
Per unit	**0.42**	0.36	17	**1.50**	0.24
Payout ratio	**50%**	39%	28	**49%**	136%
Capital expenditures	**20,215**	23,851	(15)	**72,539**	5,057
Corporate acquisitions	**116,509**	-	n/a	**177,509**	587,164
Wells drilled – gross (net)	**34 (21.7)**	15 (6.9)	n/a	**71 (40.6)**	4 (2.1)
Bank debt	**123,455**	124,185	(1)	**123,455**	89,220
Working capital deficiency	**26,575**	16,467	61	**26,575**	20,820
Total assets	**841,254**	689,297	22	**841,254**	615,486
Units outstanding (000s)					
Basic including exchangeable shares	**63,465**	52,796	20	**63,465**	43,385
Diluted	**66,025**	56,460	17	**66,025**	51,806
Operational					
Average daily production					
Natural gas (mcf/d)	**54,438**	54,096	1	**56,306**	58,264
Light oil (bbls/d)	**2,368**	2,527	(6)	**2,476**	2,671
Heavy oil (bbls/d)	**2,460**	2,096	17	**1,631**	-
NGLs (bbls/d)	**814**	785	4	**815**	846
Oil & NGLs (bbls/d)	**5,642**	5,408	4	**4,922**	3,517
Combined (boe/d)	**14,715**	14,424	2	**14,307**	13,228
Average prices received					
Natural gas ($/mcf)	**$ 11.91**	$ 9.26	29	**$ 8.84**	$ 6.89
Light oil ($/bbl)	**63.40**	68.98	(8)	**62.83**	44.29
Heavy oil ($/bbl)	**33.06**	51.94	(36)	**36.35**	-
NGLs ($/bbl)	**58.79**	56.56	4	**53.47**	45.34
Oil & NGLs ($/bbl)	**$ 49.52**	$ 60.57	(18)	**$ 52.51**	$ 44.54
Petroleum and natural gas revenues ($/boe)	**$ 63.24**	$ 57.61	10	**$ 52.97**	$ 42.37
Royalties ($/boe)	**(11.64)**	(9.94)	17	**(9.53)**	(8.93)
Realized on commodity derivatives ($/boe)	**(0.07)**	(0.26)	(73)	**(0.08)**	-
Operating expenses ($/boe)	**(10.03)**	(9.78)	3	**(9.97)**	(10.57)
Transportation ($/boe)	**(1.22)**	(0.77)	58	**(0.78)**	(0.37)
Operating netback ($/boe)	**$ 40.28**	$ 36.86	9	**$ 32.61**	$ 22.50
G&A – cash charge ($/boe)	**(2.62)**	(1.67)	57	**(1.89)**	(2.41)
Cash financial charges ($/boe)	**(1.38)**	(2.08)	(34)	**(1.93)**	(2.32)
Cash taxes ($/boe)	**(0.48)**	(0.17)	185	**(0.28)**	(0.22)
Cash flow ($/boe)	**$ 35.80**	$ 32.94	9	**$ 28.51**	$ 17.55

Per boe amounts many not add exactly due to rounding

RESULTS OF OPERATIONS

Daylight is an oil and natural gas energy trust applying a high end technical and business execution team to a high quality asset base to provide sustainable production and reserve levels. Daylight operates in the Western Canadian Sedimentary Basin. Daylight's units and its 8.5% Convertible Debentures trade on the Toronto Stock Exchange ("TSX") with the symbols DAY.UN and DAY.DB, respectively.

Production

Daylight's production volumes for Q4 2005 averaged 14,715 boe per day which is a 2% increase from Q3 2005. Q4 2005 production is comprised of 54,438 mcf per day of natural gas, 2,368 bbls per day of light oil, 2,460 bbls per day of heavy oil and 814 bbls per day of natural gas liquids ("NGLs"). Daylight's 2005 production increased 8% from 2004 to average 14,307 boe per day comprised of 56,306 mcf per day of natural gas, 2,476 bbls per day of light oil, 1,631 bbls per day of heavy oil and 815 bbls per day of NGLs. Daylight's capital expenditure program successfully added production volumes to replace natural declines while the acquisition of Flowing Energy Corporation ("Flowing") on April 5, 2005 and the acquisition of Tempest Energy Corp. ("Tempest") on November 30, 2005 provided additional production volumes to Daylight commencing on their closing dates.

	Q4	Q3	Periods ended December 31	
	2005	2005	**2005**	2004
Natural gas (mcf/day)	**54,438**	54,096	**56,306**	58,264
Light oil (bbls/day)	**2,368**	2,527	**2,476**	2,671
Heavy oil (bbls/day)	**2,460**	2,096	**1,631**	-
NGLs (bbls/day)	**814**	785	**815**	846
Combined oil and NGLs (bbls/day)	**5,642**	5,408	**4,922**	3,517
Combined all products (boe/day)	**14,715**	14,424	**14,307**	13,228

2006 production replacement activities are focused on the:

- West Central properties of Pine Creek, Kaybob, Fir and Windfall
- Peace River Arch properties of Red Earth, Cecil, Beaverlodge, Sinclair and Elmworth
- Eastern properties of Wildmere, Bon Accord, Norris, Chigwell, Calling Lake and Chipman

Commodity Prices

Daylight's natural gas prices are influenced by overall North American supply and demand balance, seasonal changes, storage levels and transportation capacity constraints. Daylight's realized natural gas price has a high correlation to the Alberta benchmark price ("AECO").

Daylight's oil price is significantly influenced by global supply and demand conditions. Daylight's realized light oil price has a high correlation to the US benchmark West Texas Intermediate at Cushing, Oklahoma ("WTI") price and the Canadian to US dollar exchange rate. Canadian light oil prices correlate to refinery postings that adjust WTI for the Canadian to US dollar exchange rate as well as transportation costs and quality adjustments. Daylight's realized heavy oil price is lower than its light oil price and the historical correlation with WTI is not as strong. Heavy oil requires increased refining and costs, such as condensate for blending, which reduce the realized price of this production. During 2005 the WTI price was very strong which has enhanced the price realized by Daylight on its oil.

NGLs include condensate, pentane, butane and propane. Prices for NGLs have their own market dynamic with a relatively strong correlation to oil prices for condensate and pentane while butane and propane trade at moderate discounts.

Market Prices	Q4	Q3	Periods ended December 31	
	2005	2005	**2005**	2004
AECO ($Cdn/mcf)	**$ 11.46**	$ 9.24	**$ 8.65**	$ 6.73
WTI ($US/bbl)	**60.02**	63.18	**56.60**	43.23
Edmonton Par ($Cdn/bbl)	**71.40**	77.02	**69.18**	51.31
Bow River ($Cdn/bbl)	**42.71**	52.64	**43.83**	37.25
Exchange rate ($Cdn/$US)	**0.8522**	0.8322	**0.8262**	0.8213

Daylight prices realized:	Q4	Q3	Periods ended December 31	
	2005	2005	**2005**	2004
Natural gas ($/mcf)	**$ 11.91**	$ 9.26	**$ 8.84**	$ 6.89
Light oil ($/bbl)	**63.40**	68.98	**62.83**	44.29
Heavy oil ($/bbl)	**33.06**	51.94	**36.35**	-
NGLs ($/bbl)	**58.79**	56.56	**53.47**	45.34
Combined oil and NGLs ($/bbl)	**49.52**	60.57	**52.51**	44.54
Combined all products ($/boe)	**$ 63.24**	$ 57.61	**$ 52.97**	$ 42.37

Daylight's natural gas price during Q4 2005 was $11.91/mcf representing a 4% premium to AECO in the quarter and a 29% increase over the Q3 2005 realized price. Daylight has consistently realized a slight premium to AECO on its natural gas sales and expects this to continue in 2006. Daylight averaged a 2% premium to AECO in both the year ended December 31, 2005 and period ended December 31, 2004.

Daylight's light oil price generally correlates with the Edmonton par price. For Q4 2005, Daylight's light oil realized 89% of the Edmonton par price while in Q3 2005 this production realized 90% of the Edmonton par price. For the year ended 2005, Daylight's realized 91% of the Edmonton par price.

Daylight's heavy oil price does not consistently correlate with the established heavy oil reference price - Bow River. Daylight's production is generally heavier than Bow River specifications and has been subject to large variances in realized pricing. During Q4 2005 Daylight's heavy oil price realized 77% of the Bow River price which is a large decrease from Q3 2005 where Daylight realized 99% of the Bow River price. The pricing of this production is influenced by many factors including the price of condensate and we expect the realized price will continue to be difficult to predict. Daylight's realized heavy oil price for the year ended December 31, 2005 was $36.35/bbl.

Daylight's combined oil and NGLs price during Q4 2005 was $49.52/bbl which is down 18% from Q3 2005, primarily due to the increasing heavy oil price differential. Daylight's combined oil and NGLs price for the year ended December 31, 2005 was $52.51/bbl.

Daylight's realized prices, with the exception of heavy oil, are expected to continue to correlate with market prices during 2006. However, we continue to monitor commodity prices and may selectively hedge a portion of our production.

Revenue

(000s)	Q4	Q3	Periods ended December 31	
	2005	2005	**2005**	2004
Natural gas	**$ 59,663**	$ 46,071	**$ 181,634**	$ 12,437
Light oil	**13,812**	16,036	**56,782**	3,668
Heavy oil	**7,482**	10,016	**21,639**	-
NGLs	**4,403**	4,085	**15,907**	1,189
Other	**255**	237	**611**	83
Total	**$ 85,615**	$ 76,445	**$ 276,573**	$ 17,377

Revenue for Q4 2005 increased 12% over Q3 2005 to $85.6 million due to the increased natural gas price we were able to realize with unhedged production and slightly lower realized oil prices which partially offset the increase. Natural gas sales for Q4 2005 were $59.7 million, up 30% from Q3 2005. Light oil sales for Q4 2005 were $13.8 million, down 14% from Q3 2005, heavy oil sales for Q4 2005 were $7.5 million, down 25% from Q3 2005, and NGLs sales for Q4 2005 were $4.4 million, up 8% from Q3 2005. Daylight's total revenue for the year ended December 31, 2005 was $276.6 million with 66% of this revenue generated from natural gas, 20% from light oil, 8% from heavy oil and 6% from NGLs.

Royalties

Royalty payments are made to the owners of the mineral rights on our leases which include provincial governments (Crown) and freehold landowners as well as to other third parties by way of contractual overriding royalties.

In Alberta, royalties on natural gas and NGLs are charged by the government based on an established monthly Reference Price. The Reference Price is meant to reflect the average price for natural gas and NGLs in Alberta. Gas cost allowance, custom processing credits and other incentive programs reduce the effective royalty rate.

Overriding royalties are generally paid to third parties where Daylight has entered into agreements to earn an interest in their mineral rights by investing capital in the property.

Oil royalty rates are generally a function of production rates on a per well basis and prices. They are also subject to certain reductions and incentives. Oil crown royalties in Alberta are generally satisfied by delivering the required volume of oil to the Crown.

Royalties by type (000s)	Q4	Q3	Periods ended December 31	
	2005	2005	**2005**	2004
Crown royalties, net of ARTC	**$ 13,504**	$ 11,045	**$ 41,799**	$ 3,276
Freehold royalties	**1,005**	868	**3,264**	51
Overriding royalties	**1,244**	1,275	**4,724**	335
Total	**$ 15,753**	$ 13,188	**$ 49,787**	$ 3,662
$ per boe	**$ 11.64**	$ 9.94	**$ 9.53**	$ 8.93
% of revenue	**18.4**	17.3	**18.0**	21.1

Royalties by commodity (000s)	Q4	Q3	Periods ended December 31	
	2005	2005	**2005**	2004
Natural gas	**$ 11,225**	$ 8,410	**$ 33,525**	$ 2,644
Oil and NGLs	**4,528**	4,778	**16,262**	1,018
Total	**$ 15,753**	$ 13,188	**$ 49,787**	$ 3,662
Natural gas ($ per boe)	**$ 13.45**	$ 10.14	**$ 9.79**	$ 8.78
Oil and NGLs ($ per boe)	**8.72**	9.60	**9.05**	9.34
Total ($ per boe)	**$ 11.64**	$ 9.94	**$ 9.53**	$ 8.93
Natural gas (% of revenue)	**18.8**	18.3	**18.5**	21.3
Oil and NGLs (% of revenue)	**17.6**	15.9	**17.2**	21.0
Total (% of revenue)	**18.4**	17.3	**18.0**	21.1

Overall royalty rates have remained relatively consistent from quarter to quarter. Rates increased slightly to 18.4% of revenue for Q4 2005 versus 17.3% for Q3 2005. Gas royalties increased to 18.8% of gas revenue in Q4 2005 from 18.3% in Q3 2005. Oil and NGLs royalties increased to 17.6% of oil revenues during Q4 2005. Royalties on a dollar per boe basis increased throughout the year as a direct result of the increase in commodity prices. Daylight's 2005 overall royalty rate was 18% and we expect overall royalty rates of approximately 18% to 19% on a go forward basis.

Gain (loss) on Commodity Derivatives

Effective January 1, 2005, the Trust adopted Accounting Guideline 13 "Hedging Relationships", which deals with the identification, designation, documentation and effectiveness of hedging relationships for the purposes of applying hedge accounting. Where hedge accounting does not apply, any changes in the fair value of the financial derivative contracts relating to a financial period can either reduce or increase net income for that period. The Trust may enter into financial instruments to manage commodity price, foreign exchange and interest rate risk that do not qualify as hedges under the guidelines.

Where hedge accounting is used, the Trust assesses, both at inception and on an ongoing basis, whether the derivative used in the particular hedging transaction is effective in offsetting changes in fair value or cash flows of the hedged item. For instruments that do not meet the hedge accounting criteria, the Trust applies the mark-to-market accounting method.

In conjunction with the Flowing acquisition, a commodity derivative contract was assumed. The commodity derivative contact was for 500 barrels per day of oil at a fixed price of Cdn$52.70 per barrel and expired on December 31, 2005. The fixed price of Cdn$52.70 per barrel was settled monthly against the actual US$ price per WTI barrel adjusted to Canadian dollars with the actual Cdn$/US$ exchange rate. Daylight applied mark-to-market accounting to this financial instrument. During Q4 2005 this commodity derivative generated a gain of $305,000 composed of a realized loss of $99,000 and an unrealized gain of $404,000. Daylight does not currently have any commodity derivatives or hedges in place.

(000s)	**Q4**	Q3	Periods ended December 31	
	2005	2005	**2005**	2004
Realized loss	**$ (99)**	$ (350)	**$ (390)**	$ -
Unrealized gain (loss)	**404**	(112)	**-**	-
Total	**$ 305**	$ (462)	**$ (390)**	$ -
$ per boe				
Realized loss	**$ (0.07)**	$ (0.26)	**$ (0.07)**	$ -
Unrealized gain (loss)	**0.30**	(0.09)	**-**	-
Total	**$ 0.23**	$ (0.35)	**$ (0.07)**	$ -

Daylight continues to monitor commodity prices and may selectively hedge a portion of its production. The current 12 month forward strip for AECO natural gas is approximately $8.25 per mcf and WTI oil is approximately US$65.00 per barrel. Daylight's budgeted prices for 2006 are $8.00 per mcf for natural gas and US$63.00 per barrel WTI for oil as well as a United States dollar to Canadian dollar exchange rate of 0.87.

Operating Expenses

Operating expenses include activities in the field required to operate wells and facilities, lift to surface, gather, process, treat and store production.

(000s)	**Q4**	Q3	Periods ended December 31	
	2005	2005	**2005**	2004
Operating costs	**$ 13,580**	$ 12,981	**$ 52,073**	$ 4,335
$ per boe	**$ 10.03**	$ 9.78	**$ 9.97**	$ 10.57

Daylight experienced a slight increase to operating costs on a per boe basis during Q4 2005 over Q3 2005 resulting in an operating cost of $10.03 per boe. This Q4 2005 per boe operating cost increase was primarily a result of higher fuel and power costs which tend to increase with commodity prices. Fuel and power costs have moderated during the early stages of 2006.

For the year ended 2005, operating costs were $52.1 million or $9.97 per boe. On a per boe basis, Daylight decreased operating costs $0.60/boe as previously identified cost saving initiatives were implemented to more than offset the significant cost pressures experienced by the industry during 2005

which have been reported as being approximately 15% higher than 2004 levels. As part of Daylight's ongoing approach to add value, management continues to pursue further operating costs savings for implementation in 2006 and beyond.

Transportation Expenses

Transportation expenses are defined by the point of legal custody transfer of the commodity and are influenced by the nature of the production, location, availability of transportation and the sales point. The cost of delivering production to the custody transfer point is shown separately as transportation expense.

Daylight generally sells its light oil and NGLs production at the lease with the purchaser taking legal custody of the oil and paying a price for the oil at that delivery point. Daylight's heavy oil production is delivered to a terminal by truck and as such bears a trucking charge which is a transportation expense. Natural gas is usually transported to an established delivery point such as AECO in Alberta and then transferred to the purchaser. Transportation expense in Q4 2005 of $1,657,000, or $1.22 per boe, increased by 58% per boe over the Q3 2005 expense of $1,018,000, or $0.77 per boe as increasing oil production required trucking to terminal transfer points. Daylight's transportation expense for the year ended December 31, 2005 was $4,055,000, or $0.78 per boe.

(000s)	**Q4**	Q3	Periods ended December 31	
	2005	2005	**2005**	2004
Transportation costs	**$ 1,657**	$ 1,018	**$ 4,055**	$ 153
$ per boe	**$ 1.22**	$ 0.77	**$ 0.78**	$ 0.37

Operating Netbacks

$ per boe	**Q4**	Q3	Periods ended December 31	
	2005	2005	**2005**	2004
Revenue	**$ 63.24**	$ 57.61	**$ 52.97**	$ 42.37
Royalties	**(11.64)**	(9.94)	**(9.53)**	(8.93)
Commodity Derivative - realized	**(0.07)**	(0.26)	**(0.08)**	-
Operating cost	**(10.03)**	(9.78)	**(9.97)**	(10.57)
Transportation	**(1.22)**	(0.77)	**(0.78)**	(0.37)
Operating netback	**$ 40.28**	$ 36.86	**$ 32.61**	$ 22.50

General and Administrative Expenses

(000s)	**Q4**	Q3	Periods ended December 31	
	2005	2005	**2005**	2004
Gross G&A	**$ 7,464**	$ 4,677	**$ 21,271**	$ 1,646
Recoveries from MOX	**(948)**	(545)	**(2,622)**	(209)
Operating recoveries	**(747)**	(663)	**(3,185)**	(246)
Capitalized costs	**(2,224)**	(1,253)	**(5,608)**	(204)
	3,545	2,216	**9,856**	987
Unit based compensation	**1,016**	808	**2,936**	-
Net G&A	**$ 4,561**	$ 3,024	**$ 12,792**	$ 987

$ per boe	**Q4**	Q3	Periods ended December 31	
	2005	2005	**2005**	2004
Gross G&A	**$ 5.51**	$ 3.52	**$ 4.07**	$ 3.94
Recoveries from MOX	**(0.70)**	(0.41)	**(0.51)**	(0.44)
Operating recoveries	**(0.55)**	(0.50)	**(0.61)**	(0.60)
Capitalized costs	**(1.64)**	(0.94)	**(1.07)**	(0.49)
	2.62	1.67	**1.89**	2.41
Unit based compensation	**0.75**	0.61	**0.56**	-
Net G&A	**$ 3.37**	$ 2.28	**$ 2.45**	$ 2.41

General and administrative expenses ("G&A") during Q4 2005 were $4,561,000 ($3.37 per boe) including non-cash unit based compensation of $1,016,000 ($0.75 per boe). This increase of $1,537,000 ($1.09 per boe) from Q3 2005 is a result of increased stock based compensation expense on the grant of unit awards and the provision for bonuses to employees based on 2005 performance. General and administrative expense for the year was $12,792,000 ($2.45 per boe) including non-cash unit based compensation of $2,936,000 ($0.56 per boe).

Pursuant to the Administrative and Technical Services Agreement, Daylight Energy charged MOX $995,000 relating to general and administrative activities for the year ended December 31, 2005 ($110,000 for the period ended December 31, 2004) and $1,627,000 relating to capital expenditures for the year ended December 31, 2005 ($99,000 for the period ended December 31, 2004). At December 31, 2005, Daylight had a receivable of $4.0 million from MOX, $0.9 million relating to the Technical Service Agreement and $3.1 million relating to joint venture activities. This receivable was collected within the terms of the agreement and in accordance with normal industry standards.

Unit based compensation expense is an allocation of the fair value of Restricted Trust Unit Awards ("RTUs") and Performance Trust Unit Awards ("PTUs") to their three year vesting period starting at the date of grant.

Financial Charges

Daylight incurs cash interest expense on its outstanding bank debt and convertible debentures. Daylight's effective bank debt interest rate was 3.9% for the year ended December 31, 2005 and the convertible debentures have a fixed interest rate of 8.5%. Non-cash financial charges relate to amortization of costs incurred to issue convertible debentures, establish bank credit facilities and accretion of the convertible debenture discount.

(000s)	**Q4**	Q3	Periods ended December 31	
	2005	2005	**2005**	2004
Bank debt interest	**$ 1,500**	$ 1,255	**$ 4,975**	$ 337
Convertible debenture interest	**362**	1,501	**5,088**	1,340
Cash financial charges	**1,862**	2,756	**10,063**	1,677
Amortization of financial charges	**55**	139	**553**	62
Accretion of convertible debenture discount	**20**	83	**321**	38
Total	**$ 1,937**	$ 2,978	**$ 10,937**	$ 1,777

$ per boe	**Q4**	Q3	Periods ended December 31	
	2005	2005	**2005**	2004
Bank debt interest	**$ 1.11**	$ 0.95	**$ 0.96**	$ 0.82
Convertible debenture interest	**0.27**	1.13	**0.97**	3.27
Cash financial charges	**1.38**	2.08	**1.93**	4.09
Amortization of financial charges	**0.04**	0.10	**0.11**	0.15
Accretion of convertible debenture discount	**0.01**	0.06	**0.06**	0.09
Total	**$ 1.43**	$ 2.24	**$ 2.10**	$ 4.33

Daylight's bank debt interest is expected to continue to correlate with market interest rates during 2006 and the convertible debentures interest rate is fixed at 8.5%. Cash financial charges are 32% lower in Q4 2005 as compared to Q3 2005 due to the significant conversion of Daylight's convertible debentures during late Q3 2005 and early Q4 2005. Daylight's total financial charges for the year ended December 31, 2005 were $10,937,000 which includes cash financial charges of $10,063,000.

Depletion, Depreciation and Accretion

Daylight's depletion, depreciation and accretion values relate to the original Plan of Arrangement acquisition values of MOG and VPCI which were recorded at fair value, the acquisition of Flowing during Q2 2005, the acquisition of Tempest during Q4 2005 and the ongoing capital expenditure program.

(000s)	**Q4 2005**	Q3 2005	Periods ended December 31 **2005**	Periods ended December 31 2004
Depletion and Depreciation	**$ 21,598**	$ 18,935	**$ 78,889**	$ 7,008
Accretion	**370**	366	**1,436**	111
Total	**$ 21,968**	$ 19,301	**$ 80,325**	$ 7,119
$ per boe				
Depletion and Depreciation	**$ 15.95**	$ 14.27	**$ 15.11**	$ 17.09
Accretion	**0.27**	0.28	**0.28**	0.27
Total	**$ 16.23**	$ 14.54	**$ 15.39**	$ 17.36

Daylight's Q4 2005 depletion, depreciation and accretion rate per boe of $16.23 increased 12% from the Q3 2005 rate primarily due to the acquisition of Tempest at a higher cost per proven boe of reserves than the depletion rate experienced by Daylight in Q3 2005. Daylight's total depletion, depreciation and accretion expense for the year ended December 31, 2005 was $80.3 million ($15.39/boe).

Future Income and Capital Taxes

During Q4 2005 Daylight recognized cash taxes of $652,000 ($0.48/boe) related to capital tax obligations and a future income tax recovery of $594,000. For the year ended December 31, 2005, Daylight recognized cash taxes of $1,467,000 ($0.28/boe) related to capital tax obligations and a future income tax recovery of $1,974,000. Daylight is a taxable entity under the Canadian Income Tax Act and is taxable only on income that is not distributed or distributable to its unitholders.

Daylight does not expect to incur any cash income taxes in the future and expects to recover the recorded future tax liability recorded on the balance sheet over time as income is generated and distributions are paid to unitholders.

(000s)	**Q4 2005**	Q3 2005	Periods ended December 31 **2005**	Periods ended December 31 2004
Future Tax	**$ (594)**	$ 1,851	**$ (1,974)**	$ (1,109)
Capital Tax	**652**	224	**1,467**	92
Total	**$58**	$ 2,075	**$ (507)**	$ (1,017)
$ per boe				
Future Tax	**$ (0.44)**	$ 1.39	**$ (0.38)**	$ (2.68)
Capital Tax	**0.48**	0.17	**0.28**	0.22
Total	**$ 0.04**	$ 1.56	**$ (0.10)**	$ (2.46)

As at December 31, 2005, Daylight Energy and its subsidiaries have tax pools of approximately $381 million, prior to recognition of approximately $37 million of deferred partnership income.

(000s)	2005
Canadian exploration expense	$ 40,000
Canadian development expense	153,000
Canadian oil and gas property expense	-
Undepreciated capital cost	150,000
Non-capital losses	34,000
Share issue costs	4,000
Total	$381,000

Daylight Energy also has approximately $94 million of additional tax pools, primarily in the form of Attributed Canadian Royalty Income, to shelter income in Alberta.

In addition to these tax pools, there are approximately $39 million of tax pools at the Trust level composed of $31 million of Canadian oil and gas property expense and $8 million of unit and debenture issue costs.

Non-Controlling Interest – Exchangeable shares
Effective June 30, 2005, Daylight retroactively adopted and applied the new accounting policy relating to the classification of exchangeable shares in accordance with the CICA issued revised draft EIC-151 "Exchangeable Securities Issued by a Subsidiary of an Income Trust". As a result, the exchangeable shares issued by the Trust's subsidiary must be reflected as non-controlling interest on the balance sheet. Accordingly, net earnings are reduced by the net earnings attributed to the non-controlling interest. The net earnings attributed to the non-controlling interest was $959,000 for Q4 2005 and $2,661,000 for the year ended December 31, 2005.

Net Earnings and Cash Flow
As a result of the previously discussed factors, Daylight recognized Q4 2005 net earnings of $25,447,000 ($18.80/boe, $0.47/unit-basic, $0.45/unit-diluted) and cash flow of $48,467,000 ($35.80/boe, $0.86/unit-basic, $0.83/unit-diluted). For the year ended December 31, 2005, Daylight recognized net earnings of $64,060,000 ($12.27/boe, $1.37/unit-basic, $1.31/unit-diluted) and cash flow of $148,882,000 ($28.51/boe, $3.05/unit-basic, $2.79/unit-diluted).

(000s)	Q4	Q3	Periods ended December 31	
	2005	2005	2005	2004
Net earnings	$ 25,447	$ 20,525	$ 64,060	$ 1,045
Per boe	$ 18.80	$ 15.47	$ 12.27	$ 2.55
Per Unit				
Basic	$ 0.47	$ 0.45	$ 1.37	$ 0.04
Diluted	$ 0.45	$ 0.42	$ 1.32	$ 0.04
Cash flow	$ 48,467	$ 43,712	$148,882	$ 7,197
Per boe	$ 35.80	$ 32.94	$ 28.51	$ 17.55
Per Unit				
Basic	$ 0.86	$ 0.91	$ 3.05	$ 0.24
Diluted	$ 0.83	$ 0.81	$ 2.79	$ 0.23

Daylight's cash flow is significantly influenced by production volumes and commodity prices. Daylight has budgeted prices for 2006 of $8.00 per mcf for natural gas and US$63.00 per bbl WTI for oil as well as a United States dollar to Canadian dollar exchange rate of 0.87. Daylight's estimated sensitivity to changes in its commodity price, production volume and exchange rate assumptions during the 2006 year is approximately:

- $1.7 million per $0.10 change in natural gas price per mcf.

- $2.0 million per $US1.00 change in the WTI oil price per bbl.
- $1.7 million per 1 mmcf per day change in production.
- $1.6 million per 100 bbl per day change in light oil production.
- $0.9 million per 100 bbl per day change in heavy oil production.
- $1.1 million per 100 bbl per day change in NGLs production.
- $1.4 million per $0.01 change in the United States dollar to Canadian dollar exchange rate.

Corporate Acquisitions

During 2005 Daylight completed two major corporate acquisitions which were accounted for using the purchase method. Daylight acquired all of the issued and outstanding shares of Flowing on April 5, 2005 and acquired all of the issued and outstanding shares of Tempest on November 30, 2005. In conjunction with the acquisition of Tempest, MOX purchased interests in certain oil and gas properties from Tempest for approximately $48 million. During 2004, Daylight acquired VPCI and MOG as part of the plan of arrangement which created the Trust. The following table provides a summary of the cost of these acquisitions to Daylight.

($ 000s)	VPCI	MOG	Flowing	Tempest	Total
Net assets acquired	350,847	240,942	33,398	106,396	731,583
Working capital deficit	5,644	(12,459)	5,928	10,087	9,200
Bank debt	-	41,604	19,573	26	61,203
Cash	(39,414)	-	-	-	(39,414)
Unrealized loss on derivative	-	-	2,101	-	2,101
Cost of acquisition	317,077	270,087	61,000	116,509	764,673
Period acquired					
Q4 2004	317,077	270,087			587,164
Q2 2005			61,000		61,000
Q4 2005				116,509	116,509
	317,077	270,087	61,000	116,509	764,673

Capital Expenditures

Daylight invested $72.5 million on its capital expenditure program for the year ended December 31, 2005 with $20.2 million being invested during Q4 2005.

(000s)	**Q4**	Q3	Periods ended December 31	
	2005	2005	**2005**	2004
Land and acquisitions	**$ 147**	$ 1,010	**$ 2,158**	$ 177
Geological and geophysical	**2,257**	1,421	**6,144**	206
Drill, complete and recomplete	**12,609**	12,114	**40,750**	3,486
Equipping and facilities	**5,202**	9,306	**23,487**	1,188
Total	**$ 20,215**	$ 23,851	**$ 72,539**	$ 5,057

During Q4 2005 Daylight drilled a total of 34 (21.7 net) wells with 100% success in the quarter.

Daylight generated 100% drilling success from its $72.5 million 2005 capital expenditure program. This program provided production and reserve additions within the following core areas:

- West Central properties including Pine Creek, Kaybob, Fir, Marlboro and Windfall. Daylight drilled 18 gross (4.4 net) wells in the year with 8 gross (1.5 net) wells drilled during Q4 2005 and executed various production and reserve enhancement activities. Approximately 40% of the 2005 capital expenditure program was invested in this area.
- Peace River Arch properties including Red Earth, Elmworth, Hines Creek, Cecil, Wapiti, Beaverlodge and Sinclair. Daylight drilled 20 gross (8.2 net) wells in the year with 6 gross (1.8 net)

wells drilled during Q4 2005 and executed various production and reserve enhancement activities. Approximately 35% of the 2005 capital expenditure program was invested in this area.

- Eastern properties including Wildmere, Bonnyville, Little Bow and Chigwell. Daylight drilled 33 gross (28.0 net) wells in the year with 20 gross (18.4 net) wells drilled during Q4 2005 and executed various production and reserve enhancement activities. Approximately 25% of the 2005 capital expenditure program was invested in this area.

The 2006 capital expenditure program is being focused on the following core areas:

- West Central properties include Pine Creek, Kaybob, Fir and Windfall. Daylight plans to drill 40 gross (16 net) wells and conduct various production and reserve enhancement activities on these properties. Approximately 40% of the 2006 capital expenditure program is planned for this area.
- Peace River Arch properties include Red Earth, Cecil, Beaverlodge, Sinclair and Elmworth. Daylight plans to drill 20 gross (9 net) wells and conduct various production and reserve enhancement activities on these properties. Approximately 20% of the 2006 capital expenditure program is planned for this area.
- Eastern properties include Wildmere, Bon Accord, Norris, Chigwell, Calling Lake and Chipman. Daylight plans to drill 40 gross (37 net) wells and conduct various production and reserve enhancement activities on these properties. Approximately 40% of the 2006 capital expenditure program is planned for this area.

Daylight has identified multiple opportunities to purchase equipment that is currently under lease and has acquired certain of these assets. These transactions are and will continue to have a positive impact on operating costs and economics of the affected properties.

Goodwill

Daylight recorded goodwill of $36 million related to the acquisition of Tempest in 2005. Goodwill of $165 million related to the acquisition of MOG and $16 million related to the acquisition of VPCI was recorded during 2004 for a total goodwill balance of $181 million at December 31, 2004. In accordance with GAAP, goodwill is not amortized but is subject to an impairment test that is conducted at least annually. There is no impairment of goodwill as at December 31, 2005.

Distributions

During 2005 Daylight declared twelve monthly cash distributions totalling $72.6 million ($1.50 per Trust Unit) and also distributed securities of Open Range Energy Corp. ("Open Range") which was created in conjunction with the Tempest acquisition. On November 30, 2005, Daylight distributed 0.10 Open Range common shares and 0.02 Open Range Arrangement Warrants, with a combined deemed fair value of $0.31, to each trust unit equivalent holder. The Open Range securities were distributed on a trust unit equivalent basis which included unitholders, exchangeable shareholders and convertible debentureholders. Daylight's management and the Board of Directors continually monitor the distribution level in relation to forecast net cash flow, debt levels and capital expenditure plans. Commodity prices and production volumes are critical variables in determining cash flow and changes in these two items have a material impact on cash flow and distributions.

On August 9, 2005, Daylight announced the implementation of the Distribution Reinvestment and Optional Trust Unit Purchase Plan ("DRIP") for eligible unitholders of the Trust. On distribution payment dates, eligible DRIP unitholders may reinvest their cash distributions in additional trust units at a price that is 95% of the 10 day weighted average trading price of Daylight units. Eligible DRIP unitholders may also make optional cash payments on this date to purchase additional trust units at a price that is equal to the 10 day weighted average trading price of Daylight units. During the year ended December 31, 2005, Daylight issued 80,553 trust units from treasury for the DRIP in lieu of cash distributions totalling $941,000.

Liquidity and Capital Resources

(000s)	December 31, 2005	December 31, 2004
Bank debt	**$ 123,455**	$ 89,220
Working capital deficiency	**26,575**	20,820
Bank debt and working capital deficiency	**150,030**	110,040
Convertible debentures	**9,219**	77,718
Non-controlling interest- exchangeable shares	**19,422**	24,019
Unitholders' equity	**$ 535,846**	$ 345,228

At December 31, 2005, Daylight had $123.5 million outstanding on its credit facilities. Daylight's credit facilities provide up to $170 million and are subject to semi-annual review by the banking syndicate. Daylight's working capital deficiency of $26.6 million combined with bank debt results in $150.0 million of total bank debt net of working capital deficiency.

Management anticipates that Daylight will continue to have adequate liquidity to fund future working capital and forecasted capital expenditures during 2006 through a combination of cash flow, debt and equity. Cash flow used to finance these commitments may reduce the amount of cash distributions paid to unitholders. Major acquisitions will require the issuance of new equity such as the Flowing acquisition that closed on April 5, 2005 and the Tempest acquisition that closed on November 30, 2005.

Trust Unit Information

Daylight units began trading on the Toronto Stock Exchange on December 2, 2004 under the symbol "DAY.UN" and Daylight is a constituent of the S&P/TSX Income Trust Index and S&P/TSX Composite Index. A summary of Daylight's trading history on the TSX follows.

(per unit)	**Q4**	Q3	Periods ended December 31	
	2005	2005	**2005**	2004
High	**$ 13.49**	$ 12.99	**$ 13.49**	$ 10.39
Low	**$ 10.99**	$ 10.00	**$ 9.26**	$ 9.15
Close	**$ 12.43**	$ 12.75	**$ 12.43**	$ 9.60
Average daily volume	**388,020**	444,740	**364,470**	328,902

As at December 31, 2005 Daylight had the following trust units and trust unit equivalents outstanding:

Trust Units and Trust Units Equivalents	Number
Trust Units	61,435,965
Exchangeable shares (1,727,287)	2,028,906
Total Basic	63,464,871
Convertible debentures ($9,433,000 face value)	992,947
Restricted trust unit awards (1,044,350)	1,155,879
Performance trust unit awards (290,000)	411,471
Total Diluted	66,025,168

As at March 21, 2006, Daylight has the following trust units and trust unit equivalents outstanding:

Trust Units and Trust Unit Equivalents	Number
Trust Units	62,960,594
Exchangeable shares (879,223)	1,057,529
Total Basic	64,018,123
Convertible debentures ($7,518,000 face value)	791,368
Restricted trust unit awards (1,063,748)	1,215,208
Performance trust unit awards (290,000)	425,234
Total Diluted	66,449,933

Contractual Obligations

The contractual obligations for which Daylight is responsible are as follows:

(000s)	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
Bank debt	$ 123,455	$ -	$ 123,455	$ -	$ -
Office leases	9,749	1,791	5,429	2,529	-
Natural gas transportation	1,893	872	1,021	-	-
Total contractual obligations	$ 135,097	$ 2,663	$ 129,905	$ 2,529	$ -

Daylight enters into multiple contractual obligations as part of conducting day to day business. Material contractual obligations include bank debt, leases for office space and commitments for natural gas transportation.

Financial Instruments

Financial instruments comprise accounts receivable, prepaid expenses and deposits, accounts payable and accrued liabilities and cash distributions payable. The fair values of these financial instruments approximate their carrying amounts due to their short-term maturities. The Trust's long-term debt bears interest at a floating market rate and accordingly, the fair market value approximates the carrying value. The convertible debentures outstanding at December 31, 2005, with a face value of $9.4 million, had a fair value based on quoted market value of $12.3 million.

Disclosure Controls and Procedures

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by Daylight is accumulated and communicated to Daylight's management as appropriate to allow timely decisions regarding required disclosure. Daylight's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of the end of the period covered by the annual filings, that Daylight's disclosure controls and procedures for the year ended December 31, 2005 are effective to provide reasonable assurance that material information related to Daylight, including its consolidated subsidiaries, is made known to them by others within those entities. It should be noted that while Daylight's Chief Executive Officer and Chief Financial Officer believe that the Company's disclosure controls and procedures provide a reasonable level of assurance that they are effective, they do not expect that the disclosure controls and procedures will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

Quarterly Information

Financial (in thousands of dollars, except unit, per unit and boe data)	2005				2004
	Q4	Q3	Q2	Q1	Oct. 21 to Dec. 31
Petroleum and natural gas revenues	$ 85,615	$ 76,445	$ 60,529	$ 53,984	$ 17,377
Royalties	(15,753)	(13,188)	(10,506)	(10,340)	(3,662)
Realized gain (loss) on commodity derivative	(99)	(350)	59	-	-
Operating expenses	(13,580)	(12,981)	(13,184)	(12,328)	(4,335)
Transportation	(1,657)	(1,018)	(950)	(430)	(153)
Operating netback	54,526	48,908	35,948	30,886	9,227
Interest income	-	-	-	-	726
G&A – cash charge	(3,545)	(2,216)	(2,108)	(1,987)	(987)
Cash financial charges	(1,862)	(2,756)	(2,861)	(2,584)	(1,677)
Cash taxes	(652)	(224)	(347)	(244)	(92)
Cash flow	48,467	43,712	30,632	26,071	7,197
Per unit – Basic	0.86	0.91	0.65	0.60	0.24
– Diluted	0.83	0.81	0.59	0.53	0.23
Net income	25,447	20,525	12,201	5,887	1,045
Per unit – Basic	0.47	0.45	0.27	0.14	0.04
– Diluted	0.45	0.42	0.26	0.14	0.04
Cash distributions declared	24,316	17,023	16,284	14,962	9,777
Per unit	0.42	0.36	0.36	0.36	0.24
Payout ratio	50%	39%	53%	57%	136%
Capital expenditures	20,215	23,851	14,086	14,387	5,057
Corporate acquisitions	116,509	-	61,000	-	587,164
Wells drilled - gross (net)	34 (21.7)	15 (6.9)	5 (3.4)	17 (8.6)	4 (2.1)
Bank debt	123,455	124,185	131,755	101,850	89,220
Working capital deficiency	26,575	16,467	11,602	12,256	20,820
Total assets	841,254	689,297	676,212	610,970	615,486
Units outstanding (000s)					
Basic including exchangeable shares	63,465	52,796	47,253	43,975	43,385
Diluted	66,025	56,460	56,209	52,594	51,806
Operations					
Average daily production					
Natural gas (mcf/d)	54,438	54,096	57,890	58,875	58,264
Light oil (bbls/d)	2,368	2,527	2,292	2,721	2,671
Heavy oil (bbls/d)	2,460	2,096	1,937	-	-
NGLs (bbls/d)	814	785	771	892	846
Oil & NGLs (bbls/d)	5,642	5,408	5,000	3,613	3,517
Combined (boe/d)	14,715	14,424	14,648	13,426	13,228
Average prices received					
Natural gas ($/mcf)	$ 11.91	$ 9.26	$ 7.51	$ 6.86	$ 6.89
Light oil ($/bbl)	63.40	68.98	62.80	56.49	44.29
Heavy oil ($/bbl)	33.06	51.94	23.49	-	-
NGLs ($/bbl)	58.79	56.56	52.71	46.35	45.34
Oil & NGLs ($/bbl)	$ 49.52	$ 60.57	$ 46.02	$ 53.99	$ 44.54
Combined all products ($/boe)	$ 63.24	$ 57.61	$ 45.41	$ 44.68	$ 42.37

The 2004 financial results reflect the activities of Daylight from October 21, 2004 to December 31, 2004. Active oil and gas operations commenced subsequent to the Plan of Arrangement on November 30, 2004 and Operations information above applies to that one month period.

Critical Accounting Estimates

The significant accounting policies used by Daylight are disclosed in note 1 to the Consolidated Financial Statements for the periods ended December 31, 2005 and 2004. Certain accounting policies require that management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Management reviews its estimates on a regular basis. The emergence of new information and changed circumstance may result in actual results or changes to estimated amounts that differ materially from current estimates. The following discussion helps to assess the critical accounting policies and practises of Daylight and the likelihood of materially different results being reported.

Reserves

Under the National Instrument 51-101 (NI 51-101) "Proved" reserves are defined as those reserves that can be estimated with a high degree of certainty to be recoverable. The level of certainty should result in at least a 90 percent probability that the quantities actually recovered will equal or exceed the estimated Proved reserves.

"Proved plus Probable" reserves are the most likely case and are based on a 50 percent certainty that they will equal or exceed the reserves estimated. The new standard provides for a more conservative evaluation of proved and probable reserves, particularly on new wells where production history has not yet been established.

These oil and gas reserve estimates are made using all available geological and reservoir data, as well as historical production data. All of Daylight's reserves were evaluated and reported on by an independent qualified reserves evaluator. However, revisions can occur as a result of various factors including: actual reservoir performance, changes in price and cost forecasts or a change in Daylight's plans. Reserve changes will impact the financial results as reserves are used in the calculation of depletion and are used to assess whether asset impairment occurs. Reserve changes also affect other non-GAAP measurements such as finding and development costs, recycle ratios and net asset value calculations.

Depletion

Daylight follows the full cost method of accounting for oil and natural gas properties. Under this method, all costs related to the acquisition of, exploration for and development of oil and natural gas reserves are capitalized whether successful or not. Depletion of the capitalized oil and natural gas properties and depreciation of production equipment which includes estimated future development costs less estimated salvage values are calculated using the unit-of-production method based on production volumes in relation to estimated proved reserves.

An increase in estimated proved reserves would result in a reduction in depletion expense. A decrease in estimated future development costs would also result in a reduction in depletion expense.

Unproved Properties

The cost of acquisition and evaluation of unproved properties are initially excluded from the depletion calculation. These properties are assessed to ascertain whether impairment in value has occurred. When proved reserves are assigned or a property is considered to be impaired, the cost of the property or the amount of the impairment will be added to the capitalized costs for the calculation of depletion.

Ceiling Test

The ceiling test is a cost recovery test intended to identify and measure potential impairment of assets. An impairment loss is recorded if the sum of the undiscounted cash flows expected from the production of the proved reserves and the lower of cost and market of unproved properties does not exceed the carrying values of the petroleum and natural gas assets. An impairment loss is recognized to the extent that the carrying value exceeds the sum of the discounted cash flows expected from the production of proved and probable reserves and the lower of cost and market of unproved properties. The cash flows are estimated using the future product prices and costs and are discounted using the risk free rate. By their nature, these estimates are subject to measurement uncertainty and the impact on the financial statements could be

material. Any impairment as a result of this ceiling test will be charged to operations as additional depletion and depreciation expense.

Asset Retirement Obligations

Daylight records a liability for the fair value of legal obligations associated with the retirement of petroleum and natural gas assets. The liability is equal to the discounted fair value of the obligation in the period in which the asset is recorded with an equal offset to the carrying amount of the asset. The liability then accretes to its fair value with the passage of time and the accretion is recognized as an expense in the financial statements. The total amount of the asset retirement obligation is an estimate based on Daylight's net ownership interest in all wells and facilities, the estimated costs to abandon and reclaim the wells and facilities and the estimated timing of the costs to be incurred in future periods. The total amount of the estimated cash flows required to settle the asset retirement obligation, the timing of those cash flows and the discount rate used to calculate the present value of those cash flows are all estimates subject to measurement uncertainty. Any change in these estimates would impact the asset retirement liability and the accretion expense.

Acquisitions

Acquisitions as disclosed in notes 2 & 3 to the Consolidated Financial Statements have been accounted for by the purchase method using fair values and the conveyance has been accounted for by the continuity of interest method. The determination of fair value involves numerous estimates. The valuation of petroleum and natural gas assets is based on Daylight's estimate of proved plus probable reserves using estimated forecasted prices at the time of the transaction, plus an estimate of unproved properties. Management also estimates the fair value of other assets and liabilities in these transactions and the balances for tax pools. This valuation could differ materially by altering the various assumptions which would have impacted the composition of the balance sheet.

Income Taxes

The determination of income and other tax liabilities requires interpretation of complex laws and regulations. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded by management.

Other Estimates

The accrual method of accounting requires management to incorporate certain estimates including estimates of revenues, royalties and operating costs as at a specific reporting date but for which actual revenues and costs have not yet been received. In addition, estimates are made on capital projects which are in progress or recently completed where actual costs have not been received by the reporting date. Daylight obtains the estimates from the individuals with the most knowledge of the activity and from all project documentation received. The estimates are reviewed for reasonableness and compared to past performance to assess the reliability of the estimates. Past estimates are compared to actual results in order to make informed decisions on future estimates.

Anticipated Changes in Accounting Principles During 2006

Financial Instruments – Recognition and Measurement

In April 2005, a series of new accounting standards were released which established guidance for the recognition and measurement of financial instruments. These new standards include Section 1530 "Comprehensive Income", Section 3855 "Financial Instruments – Recognition and Measurement", and Section 3865 "Hedges". The new standards also resulted in a number of consequential amendments to other accounting standards to accommodate the new sections. The standards require all applicable financial instruments to be classified into one of several categories including: financial assets and financial liabilities held for trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets, or other financial liabilities. The financial instruments are then included on a company's balance sheet and measured at fair value, cost or amortized cost, depending on the classification. Subsequent

measurement and recognition of changes in value of the financial instruments also depends on the initial classification. These standards are effective for interim and annual financial statements for fiscal years beginning on or after October 1, 2006 and must be implemented simultaneously. Daylight anticipates adopting these standards on January 1, 2007. Daylight does not currently have any financial instruments that would be affected by these standards and therefore adoption of these standards will have no impact on the financial statements.

Risks and Uncertainties

Daylight is subject to multiple business risks that are similar to other entities involved in the conventional energy trust sector. Daylight's financial position, results of operations, cash flows and distributions to unitholders are directly impacted by the following factors:

Volatility of Oil and Natural Gas Prices

Operational results and the financial condition of Daylight will be dependent on the prices received for oil and natural gas production. Oil and natural gas prices have fluctuated widely during recent years and are determined by economic and in the case of oil prices, political factors. Supply and demand factors, including weather and general economic conditions as well as conditions in other oil and natural gas regions impact prices. Any movement in oil and natural gas prices could have an effect on Daylight's financial condition and therefore on the cash available to be distributed to unitholders. Daylight may manage the risk associated with changes in commodity prices by entering into oil or natural gas price hedges. If Daylight hedges its commodity price exposure, it will forego the benefits it would otherwise experience if commodity prices were to increase. In addition, commodity hedging activities could expose Daylight to losses. To the extent that Daylight engages in risk management activities related to commodity prices, it will be subject to credit risks associated with counterparties contracted with.

Variations in Interest Rates and Foreign Exchange Rates

An increase in interest rates would result in an increase in the amount Daylight pays to service debt, which could result in a decrease in distributions to unitholders, as well as impact the market price of the trust units.

World oil prices are quoted in United States dollars and the price received by Canadian producers is therefore affected by the Canadian/U.S. dollar exchange rate that may fluctuate over time. A material increase in the value of the Canadian dollar may negatively impact Daylight's net production revenue.

The exchange rate for the Canadian dollar versus the U.S. dollar has increased significantly over the last 12 months, resulting in the receipt by Daylight of fewer Canadian dollars for production which may affect future distributions. To the extent that Daylight engages in risk management activities related to foreign exchange rates, it will be subject to credit risk associated with the contract counterparties. The increase in the exchange rate for the Canadian dollar and future Canadian/United States exchange rates will impact the future value of reserves as determined by Daylight's independent evaluators and may impact future distributions.

Reserve Estimates

There are numerous uncertainties inherent in estimating quantities of oil, natural gas and natural gas liquids reserves and cash flows to be derived therefrom, including many factors beyond Daylight's control. The reserve and associated cash flow information represents estimates only. In general, estimates of economically recoverable oil and natural gas reserves and the future net cash flows therefrom are based upon a number of variable factors and assumptions, such as historical production from the properties, production rates, ultimate reserve recovery, timing and amount of capital expenditures, marketability of oil and natural gas, royalty rates, the assumed effects of regulation by governmental agencies and future operating costs, all of which may vary from actual results. All such estimates are to some degree speculative, and classifications of reserves are only attempts to define the degree of speculation involved. For those reasons, estimates of the economically recoverable oil and natural gas reserves attributable to any particular group of properties, classification of such reserves based on risk of recovery and estimates of future net revenues expected therefrom prepared by different engineers, or by the same engineers at different times, may vary. Daylight's actual production, revenues and development and operating

expenditures with respect to reserves will vary from estimates thereof and such variations could be material.

Estimates of proved reserves that may be developed and produced in the future are often based upon volumetric calculations and upon analogy to similar types of reserves rather than actual production history. Estimates based on these methods are generally less reliable than those based on actual production history. Subsequent evaluation of the same reserves based upon production history and production practices may result in variations in the estimated reserves and such variations could be material.

In accordance with applicable securities laws, Daylight's independent petroleum engineering firm has used both constant and forecast price and cost estimates in calculating reserve quantities. Actual future net cash flows will be affected by other factors such as actual production levels, supply and demand for oil and natural gas, curtailments or increases in consumption by oil and natural gas purchasers, changes in governmental regulation or taxation and the impact of inflation on costs.

Actual production and cash flows derived therefrom will vary from the estimates contained in the engineering report, and such variations could be material. The engineering report is based in part on the assumed success of activities Daylight intends to undertake in future years. The reserves and estimated cash flows to be derived therefrom contained in the engineering report will be reduced to the extent that such activities do not achieve the level of success assumed.

Depletion of Reserves

Distributions of income from Daylight properties, absent commodity price increases or cost effective acquisition and development activities, will decline over time in a manner consistent with declining production from typical oil, natural gas and natural gas liquids reserves. Daylight will not be reinvesting cash flow in the same manner as other industry participants as Daylight conducts only minimal exploratory activities; nor to the same extent as other industry participants as one of Daylight's main objectives is to maximize long-term distributions. Accordingly, absent capital injections, production levels and reserves will decline and the level of income available for distributions will be reduced.

Future oil and natural gas reserves and production, and therefore Daylight's cash flows, will be highly dependent on Daylight's success in exploiting its reserve base and acquiring additional reserves. Without reserve additions through acquisition or development activities, reserves and production will decline over time as reserves are exploited.

To the extent that external sources of capital, including the issuance of additional trust units become limited or unavailable, Daylight's ability to make the necessary capital investments to maintain or expand oil and natural gas reserves will be impaired. To the extent that Daylight requires the use of cash flow to finance capital expenditures or property acquisitions, the level of income available for distributions will be reduced.

There can be no assurance that Daylight will be successful in developing or acquiring additional reserves on terms that meet its investment objectives.

Environmental Concerns

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and natural gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require Daylight's operating entities to incur costs to remedy such discharge. Although Daylight believes that it is in material compliance with current applicable environmental regulations, no assurance can be given that environmental laws will not result in a curtailment of production

or a material increase in the costs of production, development or exploration activities or otherwise adversely affect Daylight's financial condition, results of operations or prospects.

Operational Matters

Continuing production from a property, and to some extent the marketing of production therefrom, depend upon many factors, including the ability of the operator of the property. To the extent the operator fails to perform these functions properly, revenue may be reduced. Payments from production generally flow through the operator and there is a risk of delay and additional expense in receiving such revenues if the operator becomes insolvent. Although satisfactory title reviews are generally conducted in accordance with industry standards, such reviews do not guarantee or certify that a defect in the chain of title may not arise to defeat Daylight's or its subsidiaries claim to certain properties. Any such circumstances could impair the ability of Daylight Energy to satisfy its obligations or otherwise reduce the amount received by Daylight.

Insurance

Daylight's involvement in the exploration for and development of oil and natural gas properties may result in Daylight becoming subject to liability for pollution, blowouts, property damage, personal injury or other hazards. Although, prior to drilling, Daylight's operating entities will obtain insurance in accordance with industry standards to address certain of these risks, such insurance has limitations on liability that may not be sufficient to cover the full extent of such liabilities. In addition, such risks may not in all circumstances be insurable or, in certain circumstances, Daylight's operating entities may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or other reasons. The payment of such uninsured liabilities would reduce the funds available to Daylight. The occurrence of a significant event that was not fully insured against, or the insolvency of the insurer of such event, could have a material adverse effect on Daylight's operating subsidiaries' financial position, results of operations or prospects and will reduce income otherwise distributable.

Changes in Legislation

Income tax laws, or other laws or government incentive programs relating to the oil and gas industry, such as the treatment of mutual fund trusts and resource taxation, may in the future be changed or interpreted in a manner that adversely affects Daylight and the unitholders. Tax authorities having jurisdiction over Daylight or unitholders may disagree with how Daylight calculates its income for tax purposes or could change administrative practises to the detriment of Daylight or its unitholders.

Daylight intends to continue to qualify as a mutual fund trust for purposes of the Income Tax Act (Canada). Daylight may not, however, always be able to satisfy any future requirements for the maintenance of mutual fund trust status. Should Daylight's status as a mutual fund trust be lost or successfully challenged by a relevant tax authority, certain adverse consequences may arise for Daylight and its unitholders. Some of the significant consequences of losing mutual fund trust status are as follows:

- Daylight would be taxed on certain types of income distributed to unitholders, including income generated by the royalties held. Payment of this tax may have adverse consequences for some unitholders, particularly unitholders that are not residents of Canada and residents of Canada that are otherwise exempt from Canadian income tax.
- Daylight would cease to be eligible for the capital gains refund mechanism available under Canadian tax laws if it ceased to be a mutual fund trust.
- Trust units held by unitholders that are not residents of Canada would become taxable Canadian property. These non-resident holders would be subject to Canadian income tax on any gains realized on a disposition of trust units held by them.
- Trust units would not constitute qualified investments for registered retirement savings plans ("RRSPs"), registered retirement income funds ("RRIFs"), registered education savings plans ("RESPs") or deferred profit sharing plans ("DPSPs"). If, at the end of any month, one of these exempt plans holds Trust Units that are not qualified investments, the plan must pay a tax equal to 1% of the fair market value of the trust units at the time the trust units were acquired by the exempt plan. An RRSP or RRIF holding non-qualified trust units would be subject to taxation on income

attributable to the trust units. If an RESP holds non-qualified trust units, it may have its registration revoked by the Canada Revenue Agency.

Daylight may take certain measures in the future to the extent considered necessary to ensure that status as a mutual fund trust is maintained. These measures could be adverse to certain holders of trust units, particularly "non-residents" of Canada as defined in the Income Tax Act (Canada).

Debt Service

Daylight Energy may, from time to time, finance a significant portion of its operations through debt. Amounts paid in respect of interest and principal on debt incurred by Daylight Energy may impair Daylight Energy's ability to satisfy its obligations to Daylight. Variations in interest rates and scheduled principal repayments could result in significant changes in the amount required to be applied to debt service before payment by Daylight Energy of its obligation to Daylight. Ultimately, this may result in lower levels of distributable cash.

Pursuant to its credit facilities, Daylight Energy is restricted from making distributions to Daylight, including payments of principal and interest in the following circumstances: (i) after a demand has been made under the facility; (ii) after a default or event of default has occurred under the facility or if the borrowings thereunder exceed the borrowing base established from time to time by the lender; and (iii) if such distribution would result in a default or event of default under the facility. This may restrict the ability of Daylight Energy to pay Daylight, and therefore may limit or eliminate cash available for distribution.

Lenders will be provided with security over all of the assets of Daylight Energy. If Daylight Energy becomes unable to pay its debt service charges or otherwise commits an event of default such as bankruptcy, a lender may foreclose on or sell the assets of Daylight Energy.

Delay in Cash Distributions

In addition to the usual delays in payment by purchasers of oil and natural gas to the operators of the properties, and by the operator to Daylight Energy, payments between any of such parties may also be delayed by restrictions imposed by lenders, delays in the sale or delivery of products, delays in the connection of wells to a gathering system, blowouts or other accidents, recovery by the operator of expenses incurred in the operation of the properties or the establishment by the operator of reserves for such expenses.

Reliance on Management

Unitholders will be dependent on the management of Daylight Energy in respect of the administration and management of all matters relating to its operations. Daylight Energy, as of December 31, 2005, operated approximately 75% of total daily production. Investors who are not willing to rely on the management of Daylight Energy should not invest in the trust units, exchangeable shares and/or convertible debentures.

Expansion of Operations

The operations and expertise of management are currently focused on conventional oil and gas production and development in the Western Canadian Sedimentary Basin. In the future, Daylight may acquire oil and gas properties outside this geographic area. In addition, the Trust Indenture does not limit Daylight's activities to oil and gas production and development, and Daylight could acquire other energy related assets, such as oil and natural gas processing plants or pipelines. Expansion activities into new areas may present new additional risks or alternatively, significantly increase the exposure to one or more of the present risk factors which may result in future operational and financial conditions being adversely affected.

Net Asset Value

Daylight's net asset value from time to time will vary dependent upon a number of factors beyond the control of management, including oil and gas prices. The trading prices of the trust units from time to time is also determined by a number of factors which are beyond the control of management and such trading prices may be greater than Daylight's net asset value.

Additional Financing

In the normal course of making capital investments to maintain and expand Daylight's oil and gas reserves, additional trust units may be issued from treasury which may result in a decline in production per trust unit and reserves per trust unit. Additionally, from time to time Daylight may issue trust units from treasury in order to reduce debt and maintain a more optimal capital structure. Conversely to the extent that external sources of capital, including the issuance of additional trust units become limited or unavailable, Daylight's ability to make the necessary capital investments to maintain or expand oil and gas reserves will be impaired. To the extent that Daylight is required to use cash flow to finance capital expenditures or property acquisitions or to pay debt service charges or to reduce debt, the level of income available for distributions will be reduced.

Competition

There is strong competition relating to all aspects of the oil and gas industry. There are numerous trusts in the oil and gas industry, who are competing for the acquisitions of properties with longer life reserves and properties with exploitation and development opportunities. As a result of such increasing competition, it will be more difficult to acquire reserves on beneficial terms. Daylight also competes for reserve acquisitions and skilled industry personnel with a substantial number of other oil and gas companies and trusts, many of which have significantly greater financial and other resources.

Accounting Write-Downs as a Result of GAAP

Canadian Generally Accepted Accounting Principles ("GAAP") require that management apply certain accounting policies and make certain estimates and assumptions which affect reported amounts in Daylight's consolidated financial statements. The accounting policies may result in non-cash charges to net income and write-downs of net assets in the financial statements. Such non-cash charges and write-downs may be viewed unfavourably by the market and result in an inability to borrow funds and/or may result in a decline in the trust unit price.

Under GAAP, the net amounts at which petroleum and natural gas costs on a property or project basis are carried are subject to a cost-recovery test, which is based in part upon estimated future net cash flows from reserves. If net capitalized costs exceed the estimated recoverable amounts, Daylight will have to charge the amounts of the excess to earnings. A decline in the net value of oil and natural gas properties could cause capitalized costs to exceed the cost ceiling, resulting in a charge against earnings. The net value of oil and gas properties are highly dependent upon the prices of oil and natural gas.

GAAP requires that goodwill balances be assessed at least annually for impairment and that any permanent impairment be charged to net income. A permanent reduction in reserves, decline in commodity prices, and/or reduction in the trust unit price may indicate a goodwill impairment. As at December 31, 2005, Daylight had goodwill recorded on the balance sheet. An impairment would result in a write-down of the goodwill value and a non-cash charge against net income. The calculation of impairment value is subject to management estimates and assumptions.

Emerging GAAP surrounding hedge accounting may result in non-cash charges against net income as a result of changes in the fair market value of hedging instruments. A decrease in the fair market value of the hedging instruments as the result of fluctuations in commodity prices and foreign exchange rates may result in a write-down of net assets and a non-cash charge against net income. Such write-downs and non-cash charges may be temporary in nature if the fair market value subsequently increases.

Return of Capital

Trust units will have no value when Daylight's oil and gas properties can no longer be economically produced and, as a result, cash distributions do not represent a "yield" in the traditional sense and are not comparable to bonds or other fixed yield securities, where investors are entitled to a full return of the principal amount of debt on maturity in addition to a return on investment through interest payments. Distributions represent a combination of return of unitholders initial investment and a return on unitholders initial investment.

Unitholders have a limited right to require Daylight to repurchase their trust units, which is referred to as a redemption right. It is anticipated that the redemption right will not be the primary mechanism for unitholders to liquidate their investment. The right to receive cash in connection with a redemption is subject to limitations.

Nature of Trust Units

Trust units do not represent a traditional investment in the oil and natural gas sector and should not be viewed as shares in Daylight Energy. Trust units represent a fractional interest in the Trust. As holders of trust units, unitholders will not have the statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring "oppression" or "derivative" actions. Daylight's sole assets are investments in Daylight Energy. The price per trust unit is a function of anticipated distributable cash, underlying assets and management's ability to effect long-term growth in value. The market price of the trust units will be sensitive to a variety of market conditions including, but not limited to, interest rates and Daylight's ability to acquire suitable oil and natural gas properties. Changes in market conditions may adversely affect the trading price of the trust units.

The trust units are not "deposits" within the meaning of the Canada Deposit Insurance Corporation Act (Canada) and are not insured under the provisions of that Act or any other legislation. Furthermore, Daylight is not a trust company and, accordingly, is not registered under any trust and loan company legislation as it does not carry on nor intend to carry on the business of a trust company.

Exchangeable Shares

An investment in exchangeable shares should be considered speculative due to the fact that adjustments to the exchange ratio are made assuming reinvestment of distributions or dividends, as applicable, at the prevailing market price of a trust unit at the time at which any such distributions are made on the trust units or any such dividends are paid on the exchangeable shares. As a result, the cumulative return on an investment in exchangeable shares may be higher or lower than that on an investment in trust units over a comparable period.

Unitholder Limited Liability

The Trust Indenture provides that no unitholder will be subject to any liability in connection with Daylight or its obligations and affairs and, in the event that a court determines unitholders are subject to any such liabilities, the liabilities will be enforceable only against, and will be satisfied only out of Daylight assets. Pursuant to the Trust Indenture, Daylight will indemnify and hold harmless each unitholder from any costs, damages, liabilities, expenses, charges and losses suffered by a unitholder resulting from or arising out of such unitholder not having such limited liability.

The Trust Indenture provides that all written instruments signed by or on behalf of Daylight must contain a provision to the effect that such obligation will not be binding upon unitholders personally. Personal liability may also arise in respect of claims against Daylight that do not arise under contracts, including claims in tort, claims for taxes and possibly certain other statutory liabilities. The possibility of any personal liability of this nature arising is considered unlikely.

Daylight's operations will be conducted, upon the advice of counsel, in such a way and in such jurisdictions as to avoid as far as possible any material risk of liability on the unitholders for claims.

In addition, the Income Trust Liability Act (Alberta) was proclaimed in force in Alberta on June 30, 2004. The Income Trust Liability Act (Alberta) provides that the beneficiary of a trust that is (a) created by a trust instrument governed by the laws of Alberta, and (b) a reporting issuer as defined in the Securities Act (Alberta), is not liable as a beneficiary for any act, default, obligation or liability of the trustee.

Stability Rating

Daylight does not have a stability rating and has no current plans to apply for a stability rating.

Non-Resident Ownership of Trust Units

In order for Daylight to maintain its status as a mutual fund trust under the Income Tax Act (Canada), it must not be established or maintained primarily for the benefit of non-residents within the meaning of the Income Tax Act (Canada). The Trust Indenture provides that if at any time Daylight become aware that the beneficial owners of 45% or more of the trust units then outstanding are or may be non-residents or that such a situation is imminent, Daylight shall take such action as may be necessary to carry out the foregoing intention.

Regulatory

Oil and natural gas operations (exploration, production, pricing, marketing and transportation) are subject to extensive controls and regulations imposed by various levels of government that may be amended from time to time. Daylight's operations may require licenses from various governmental authorities. There can be no assurance that Daylight will be able to obtain all necessary licenses and permits that may be required to carry out exploration and development at planned projects.

Maintenance of Distributions

Daylight adds to its oil and natural gas reserves primarily through development and acquisitions with only a small percentage of the capital directed to exploration. As a result, future oil and natural gas reserves are highly dependent on Daylight's operating entities success in exploiting existing properties and acquiring additional reserves. Daylight also distributes the majority of its net cash flow to unitholders rather than reinvesting it in reserve additions. Accordingly, if external sources of capital, including the issuance of additional trust units, become limited or unavailable on commercially reasonable terms, Daylight's operating entities ability to make the necessary capital investments to maintain or expand oil and natural gas reserves will be impaired. To the extent that Daylight's operating entities are required to use cash flow to finance capital expenditures or property acquisitions, the level of cash flow available for distribution to unitholders will be reduced. Additionally, Daylight cannot guarantee that it will be successful in developing additional reserves or acquiring additional reserves on terms that meet its investment objectives. Without these reserve additions, Daylight's reserves will deplete and as a consequence, either production from, or the average reserve life of, Daylight properties will decline. Either decline may result in a reduction in the value of trust units and in a reduction in cash available for distributions to unitholders.

Kyoto Protocol

Canada is a signatory to the United Nations Framework Convention on Climate Change and has ratified the Kyoto Protocol established thereunder to set legally binding targets to reduce nationwide emissions of carbon dioxide, methane, nitrous oxide and other so called "greenhouse natural gases". Daylight's exploration and production facilities and other operations and activities emit a small amount of greenhouse natural gases which may subject Daylight to legislation regulating emissions of greenhouse natural gases. The Government of Canada has put forward a Climate Change Plan for Canada which suggests further legislation will set greenhouse natural gases emission reduction requirements for various industrial activities, including oil and natural gas exploration and production. Future federal legislation, together with provincial emission reduction requirements such as those proposed in Alberta's Bill 37: Climate Change and Emissions Management, may require the reduction of emissions or emissions intensity produced by Daylight's operations and facilities. The direct or indirect costs of these regulations may adversely affect Daylight's business.

Taxation of Daylight Energy

Daylight Energy is subject to taxation in each taxation year on its income for the year, after deducting certain payments made to Daylight. During the period that exchangeable shares issued by Daylight Energy are outstanding, a portion of the cash flow will be subject to tax to the extent that there are not sufficient resource pool deductions, capital cost allowance or utilization of prior years non-capital losses to reduce taxable income to zero. Daylight Energy intends to deduct, in computing its income for tax purposes, the full amount available for deduction in each year associated with the income tax resource pools, undepreciated capital cost ("UCC") and non-capital losses carried forward from MOG and VPCI, if any, plus resource pools and UCC created by capital expenditures of Daylight Energy. If there are not sufficient resource pools, UCC

and non-capital losses carried forward to shelter the income of Daylight Energy, then cash taxes would be payable by Daylight Energy. In addition, there can be no assurance that taxation authorities will not seek to challenge certain amounts. If such a challenge were to succeed against Daylight Energy, it could materially adversely affect the amount of distributable cash available.

Further, interest on a note payable accrues to Daylight for income tax purposes whether or not actually paid. The Trust Indenture provides that an amount equal to the taxable income of Daylight will be distributed each year to unitholders in order to reduce Daylight's taxable income to zero. Where interest payments on the note payable are due but not paid in whole or in part, the Trust Indenture provides that any additional amount necessary to be distributed to unitholders may be distributed in the form of trust units rather than in cash. Daylight unitholders will be required to include such additional amount in income even though they do not receive a cash distribution.

Dated March 21, 2006

MANAGEMENT'S RESPONSIBILITY STATEMENT

The consolidated financial statements of Daylight Energy Trust and all information in this report are the responsibility of management and have been approved by the Board of Directors. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The consolidated financial statements include amounts that are based on estimates, which have been objectively developed by management using all relevant information. All financial and operating data in this report is consistent with the information in the consolidated financial statements.

Daylight Energy Trust maintains appropriate systems of internal control to give reasonable assurance that transactions are appropriately authorized, assets are safeguarded from loss or misuse and financial records are properly maintained to provide reliable information for the preparation of financial statements. Daylight Energy Trust has effective disclosure controls and procedures to ensure timely and accurate disclosure of material information relating to the Trust which complies with the current requirements of Canadian securities legislation.

KPMG LLP, an independent firm of chartered accountants, has been engaged to examine the financial statements and provide their auditor's report. Their report is presented with the consolidated financial statements.

The directors are responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board carries out this responsibility principally through its Audit Committee. The Audit Committee is comprised entirely of outside directors and meets regularly with management and with the Company's external auditors to discuss the results of their audit examination and to review issues related thereto. The external auditors have full access to the Audit Committee with and without the presence of management. The Audit Committee reviews the consolidated financial statements and Management's Discussion and Analysis and recommends their approval to the Board of Directors.

Signed *"Anthony Lambert"*

Anthony Lambert
President and CEO

Signed *"Steve Nielsen"*

Steve Nielsen
Vice President Finance and CFO

Calgary, Alberta
March 21, 2006

AUDITORS' REPORT TO THE UNITHOLDERS

We have audited the consolidated balance sheets of Daylight Energy Trust as at December 31, 2005 and 2004 and the consolidated statements of income and deficit and cash flows for the year ended December 31, 2005 and for the period from October 21, 2004 to December 31, 2004. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the year ended December 31, 2005 and for the period from October 21, 2004 to December 31, 2004 in accordance with Canadian generally accepted accounting principles.

Signed *"KPMG LLP"*

Chartered Accountants

Calgary, Canada
March 21, 2006

Consolidated Balance Sheets
As at December 31,

(in thousands of dollars)

	2005	2004
		(restated - note 1)
Assets		
Current assets		
Accounts receivable	$ 61,371	$ 27,551
Prepaid expenses and deposits	1,327	955
	62,698	28,506
Petroleum and natural gas assets (note 4)	560,972	402,729
Deferred financing charges (note 7)	720	3,680
Goodwill (notes 2 and 3)	216,864	180,571
	$ 841,254	$ 615,486
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	$ 80,672	$ 44,427
Distributions payable	8,601	4,899
	89,273	49,326
Bank debt (note 5)	123,455	89,220
Convertible debentures (note 6)	9,219	77,718
Asset retirement obligations (note 8)	18,179	16,528
Future taxes (note 11)	45,860	13,447
Non-controlling interest - exchangeable shares (note 9)	19,422	24,019
	305,408	270,258
Unitholders' Equity		
Unitholders' capital (note 10)	565,128	351,640
Contributed surplus (note 10)	2,936	-
Equity component of convertible debentures (note 6)	274	2,320
Deficit	(32,492)	(8,732)
	535,846	345,228
	$ 841,254	$ 615,486

Commitments (note 14)

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Signed *"Peter Harrison"* **Director**

Signed *"Jeff Tonken"* **Director**

Consolidated Statements of Income and Deficit
Periods ended December 31,

(in thousands of dollars, except per unit amounts)

		2005		2004
				(restated – note 1)
Revenues				
Petroleum and natural gas	$	276,573	$	17,377
Royalties		(49,787)		(3,662)
Interest income		-		726
Loss on commodity derivatives (note 13)		(390)		-
		226,396		14,441
Expenses				
Operating		52,073		4,335
Transportation		4,055		153
General and administrative		12,792		987
Financial charges (note 7)		10,937		1,777
Depletion, depreciation and accretion		80,325		7,119
		160,182		14,371
Income before taxes and non-controlling interest		66,214		70
Taxes (note 11)				
Capital taxes		1,467		92
Future tax reduction		(1,974)		(1,109)
		(507)		(1,017)
Income before non-controlling interest		66,721		1,087
Non-controlling interest - exchangeable shares (note 9)		2,661		42
Net income	$	64,060	$	1,045
Deficit, beginning of period		(8,732)		-
Distributions (note 10)		(87,820)		(9,777)
Deficit, end of period	$	(32,492)	$	(8,732)
Net income per unit (note 10)				
Basic	$	1.37	$	0.04
Diluted	$	1.32	$	0.04

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Periods ended December 31,

(in thousands of dollars)

		2005		2004
				(restated – note 1)
Cash provided by (used in):				
Operating				
Net income	$	64,060	$	1,045
Items not affecting cash:				
Depletion, depreciation and accretion		80,325		7,119
Non-controlling interest - exchangeable shares (note 9)		2,661		42
Future tax reduction		(1,974)		(1,109)
Non-cash financial charges (note 7)		874		100
Unit based compensation		2,936		-
Asset retirement expenditures (note 8)		(4,010)		(223)
Change in non-cash operating working capital (note 12)		(11,653)		2,418
		133,219		9,392
Financing				
Bank debt (note 5)		14,636		49,616
Issue of trust units, net of issue costs (note 10)		(2,336)		165,922
Convertible debentures issued		-		80,000
Deferred financing charges		-		(3,742)
Cash distribution to unitholders (note 10)		(67,942)		(4,878)
Change in non-cash financing working capital (note 12)		(704)		4,899
		(56,346)		291,817
Investing				
Petroleum and natural gas additions		(72,539)		(5,057)
Corporate acquisitions (note 3)		-		(311,433)
Corporate acquisition costs (note 2)		(628)		-
Change in non-cash investing working capital (note 12)		(3,706)		15,281
		(76,873)		(301,209)
Change in cash		-		-
Cash, beginning of period		-		-
Cash, end of period	$	-	$	-

Cash is defined as cash and cash equivalents.

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

For the year ended December 31, 2005 and the period from October 21, 2004 to December 31, 2004

(Tabular amounts are stated in thousands of dollars except unit, share, and per unit amounts.)

Daylight Energy Trust ("Daylight" or the "Trust") is an open-ended, unincorporated investment trust governed by the laws of the Province of Alberta pursuant to a Trust Indenture. Valiant Trust Company has been appointed trustee under the Trust Indenture. The beneficiaries of the Trust are the holders of the Trust units ("unitholders").

The Trust was formed on October 1, 2004, completed a private placement on October 21, 2004 and began active oil and gas operations through its subsidiary, Daylight Energy Ltd. ("Daylight Energy") as part of a Plan of Arrangement ("Plan of Arrangement") on November 30, 2004. The acquisition of Vintage Petroleum Canada, Inc. ("VPCI") and Midnight Oil and Gas Ltd. ("MOG") has been accounted for by the purchase method using fair values as at November 30, 2004. The conveyance of assets to Midnight Oil Exploration Ltd. ("MOX") has been accounted for by the continuity of interests method. The consolidated financial statements reflect the financial position, results of operations and cash flows since Daylight's private placement on October 21, 2004 with oil and gas operations commencing on November 30, 2004 in accordance with the Plan of Arrangement.

The purpose of the Trust is to explore for, develop and hold interests in petroleum and natural gas properties, through investments in securities of subsidiaries and royalty interests in oil and natural gas properties. The business of the Trust is carried on by Daylight Energy and its subsidiaries. The Trust owns 100% of the common shares, (excluding the exchangeable shares – see note 9) of Daylight Energy. The activities of Daylight Energy are financed through internally generated cash flow, interest bearing notes from the Trust and third party debt as described in note 5.

Pursuant to the terms of an agreement (the "NPI Agreement"), the Trust is entitled to a payment from Daylight Energy each month equal to the amount by which 99% of the gross proceeds from the sale of production exceed 99% of certain deductible expenditures as defined under the terms of the NPI Agreement. Deductible expenditures may include amounts, determined on a discretionary basis, to fund capital expenditures, to repay debt and to provide for working capital required to carry out the operations of Daylight Energy.

The Trust may declare payable to the unitholders all or any part of the net income of the Trust earned from interest income on the notes and from the income generated under the NPI Agreement, and from any dividends paid on the common shares of Daylight Energy, less any expenses of the Trust, including interest on convertible debentures.

Daylight is involved in the exploitation, development and production of petroleum and natural gas in Alberta, British Columbia and Saskatchewan.

1. Significant Accounting Policies

The consolidated financial statements are stated in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and include the accounts of the Trust and its wholly owned subsidiaries. Preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the period. Actual results may differ materially from those estimates.

Specifically, the amounts recorded for depletion, depreciation and accretion of petroleum and natural gas assets and asset retirement obligations are based on estimates. The ceiling test is based on estimates of reserves, production rates, oil and gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be material.

Consolidation

The consolidated financial statements include the accounts of the Trust, its subsidiaries and one partnership. Subsidiaries of the Trust include Daylight Energy and two additional corporations. All inter-entity balances and transactions have been eliminated.

Petroleum and Natural Gas Assets

Daylight follows the full cost method of accounting for petroleum and natural gas operations whereby all costs related to the acquisition, exploration and development of petroleum and natural gas reserves are capitalized. Such costs include lease acquisition costs, geological and geophysical costs, carrying charges of non-producing properties, costs of drilling both productive and non-productive wells, the cost of petroleum and natural gas production equipment, asset retirement costs and overhead charges related to exploration and development activities.

Daylight evaluates its petroleum and natural gas assets in each reporting period to determine that the costs are recoverable and the costs do not exceed the fair value of the properties. If the sum of the undiscounted cash flows expected from the production of proved reserves and the lower of cost and market of unproved properties exceed the carrying value of the petroleum and natural gas assets, the costs are considered recoverable. If the carrying value of the petroleum and natural gas assets is not considered to be recoverable, an impairment loss is recognized to the extent that the carrying value exceeds the sum of the discounted cash flows expected from the production of proved and probable reserves and the lower of cost and market of unproved properties. The cash flows are estimated using the future product prices and costs and are discounted using a risk-free rate.

Proceeds from the disposition of petroleum and natural gas properties are applied against capitalized costs except for dispositions that would change the rate of depletion and depreciation by 20% or more, in which case a gain or loss would be recorded.

Depletion of petroleum and natural gas assets and depreciation of production equipment are calculated using the unit-of-production method, based on production volumes before royalties in relation to estimated proven reserves as determined by an independent petroleum engineering firm. Natural gas reserves and production are converted to equivalent barrels of oil based upon the relative energy content of six thousand cubic feet of gas to one barrel of oil.

The cost of acquisition and evaluation of unproved properties are initially excluded from the depletion calculation. A separate impairment test is performed on these assets to determine whether the carrying value exceeds the fair value. Any excess in carrying value over fair value is an impairment. When proved reserves are assigned or a property is considered to be impaired, the cost of the property or the amount of the impairment will be added to the capitalized costs for the calculation of depletion.

Goodwill

Goodwill represents the excess of purchase price of a business above the fair value of net assets acquired. Goodwill in not amortized and is tested for impairment at least annually or more frequently if economic events dictate. A goodwill impairment provision would be recognized when the recorded amount of goodwill

exceeds its fair value. Should an impairment provision be required, it will be charged to income in the period of impairment.

Asset Retirement Obligations

Daylight records a liability for the fair value of legal obligations associated with the retirement of long-lived tangible assets in the period in which they are incurred, which is normally when the asset is purchased, constructed or developed discounted to its present value using a credit adjusted risk-free interest rate. At recognition of the liability there is a corresponding increase in the carrying amount of the related asset known as the asset retirement cost, which is depleted on a unit-of-production basis over the life of the reserves. The liability is adjusted each reporting period to reflect the passage of time, with the accretion charged to income, and for revisions to the estimated future cash flows. Actual costs incurred upon settlement of the obligations are charged against the liability to the extent of the liability recorded.

Revenue Recognition

Revenue associated with the sale of crude oil, natural gas and natural gas liquids is recognized when legal title passes to the purchaser.

Taxes

Daylight is a taxable entity under the Canadian Income Tax Act ("Act") and is taxable only on income that is not distributed or distributable to its unitholders. Since Daylight distributes all of its taxable income (if any) to its unitholders and meets the requirements of the Act, no provision for income tax has been made in the Trust.

Daylight Energy and its wholly owned subsidiaries follow the liability method of accounting for income taxes. Under this method, income tax liabilities and assets are recognized for the estimated tax consequences attributable to differences between the amounts reported in the financial statements of Daylight Energy and its wholly owned subsidiaries and their respective tax basis, using substantially enacted income tax rates expected to be in effect when the temporary differences are anticipated to reverse. The effect of a change in income tax rates on future income tax liabilities and assets is recognized in income in the period that the change occurs.

Deferred Financing Charges

Deferred financing charges include the unamortized cost of issuing the convertible debentures and the unamortized cost of establishing the revolving term facility. Amortization is provided on a straight-line basis over the term of the related debt and is included in financial charges for the period.

Joint Operations

Daylight conducts development and production activities jointly with others. These financial statements only reflect Daylight's proportionate interest in such activities.

Cash and Cash Equivalents

Daylight considers cash and investments with a maturity of three months or less to be cash equivalents.

Unit Based Compensation

The Trust has established a unit award incentive plan for employees, officers, directors and other service providers. The Trust uses the fair value method for valuing unit based compensation. Under this method, compensation cost attributable to the unit awards are measured at the fair value at the grant date and expensed over the vesting period with a corresponding increase to contributed surplus. Upon settlement of

the unit awards, the previously recognized value in contributed surplus will be recorded as an increase to Unitholders' capital.

Per Unit Information

Basic income per unit is calculated using the weighted average number of units outstanding during the year adjusted for the impact of units to be issued on the conversion of exchangeable shares. Diluted income per unit is calculated using the treasury stock method to determine the dilutive effects of convertible debentures and grants under the unit award incentive plan.

Hedging Relationships

Effective January 1, 2005, the Trust adopted Accounting Guideline 13 "Hedging Relationships", which deals with the identification, designation, documentation and effectiveness of hedging relationships for the purposes of applying hedge accounting. Where hedge accounting does not apply, any changes in the fair value of the financial derivative contracts relating to a financial period can either reduce or increase net income for that period. The Trust may enter into financial instruments to manage commodity price, foreign exchange and interest rate risk that do not qualify as hedges under the guidelines.

Where hedge accounting is used, the Trust assesses, both at inception and on an ongoing basis, whether the derivative used in the particular hedging transaction is effective in offsetting changes in fair value or cash flows of the hedged item. For instruments that do not meet the hedge accounting criteria the Trust applies the mark-to-market accounting method.

Exchangeable Shares

Effective June 30, 2005, the Trust adopted the new accounting policy relating to the classification of exchangeable shares. On January 19, 2005, the CICA issued revised draft EIC-151 "Exchangeable Securities Issued by a Subsidiary of an Income Trust" that states that exchangeable securities issued by a subsidiary of an Income Trust should only be reflected as part of unitholders' equity if they are economically equivalent to Trust units and they are non-transferable. If they do not meet both of these criteria, they should be classified as minority interest or as debt based on their characteristics. As the exchangeable shares issued by Daylight Energy are transferable they do not meet the criteria as set out in the Abstract, and should therefore be classified as minority interest. Previously, the exchangeable shares were reflected as a component of Unitholders' Equity.

In accordance with the transitional provisions of EIC-151, the Trust has retroactively restated the prior period.

The effect of the adoption on the balance sheet is presented in the table below:

December 31, 2004	As reported	Change	Restated
Non-controlling interest - exchangeable shares	$ -	$ 24,019	$ 24,019
Unitholders' equity:			
Unitholders' capital	351,639	1	351,640
Exchangeable shares	23,978	(23,978)	-
Deficit	$ (8,690)	$ (42)	$ (8,732)

The effect on the statement of income for the period is presented in the table below:

Period ended December 31, 2004	As reported	Change	Restated
Non-controlling interest – exchangeable shares	$ -	$ 42	$ 42
Net income	1,087	(42)	1,045
Basic income per unit	0.04	-	0.04
Basic income per unit	0.04	-	0.04

2. Corporate Acquisitions

a) Flowing Energy Corporation

On April 5, 2005, Daylight through its wholly owned subsidiary, Daylight Energy acquired all of the issued and outstanding shares of Flowing Energy Corporation ("Flowing"). As consideration, Daylight issued one trust unit, or exchangeable share equivalent, for every 13.45 Flowing common shares. This resulted in Daylight issuing 370,218 exchangeable shares with an exchange ratio of 1.06169 and 2,783,904 trust units. The operations of Flowing have been included with the results of the Trust commencing April 5, 2005. The transaction was accounted for by the purchase method, based on fair values as follows:

Net assets acquired:	
Petroleum and natural gas assets	$ 63,549
Bank debt	(19,573)
Unrealized loss on commodity derivatives	(2,101)
Working capital deficiency	(5,928)
Asset retirement obligations	(1,413)
Future taxes	(1,136)
Total net assets acquired	$ 33,398

Consideration:	
Trust units issued	$ 28,996
Non-controlling interest – exchangeable shares	4,087
Transaction costs	315
Total purchase price	$ 33,398

b) Tempest Energy Corp.

On November 30, 2005, Daylight through its wholly owned subsidiary, Daylight Energy acquired all of the issued and outstanding shares of Tempest Energy Corp. ("Tempest"). As consideration, Daylight issued one trust unit for every 2.35 Tempest common shares, resulting in Daylight issuing 9,118,533 trust units. In conjunction with the acquisition, MOX acquired certain interests in oil and gas properties from Tempest for approximately $48 million. The operations of Tempest have been included with the results of the Trust commencing November 30, 2005. The transaction was accounted for by the purchase method, based on fair values as follows:

Net assets acquired:	
Petroleum and natural gas assets	$ 114,082
Goodwill	36,293
Working capital deficiency	(10,087)
Bank debt	(26)
Asset retirement obligations	(2,406)
Future taxes	(31,460)
Total net assets acquired	$ 106,396

Consideration:	
Trust units issued	$ 106,083
Transaction costs	313
Total purchase price	$ 106,396

The above amounts are estimates made by management based on currently available information. Amendments may be made to the purchase equation as the cost estimates and tax balances are finalized.

3. Plan of Arrangement

The Plan of Arrangement involved the acquisition of Vintage Petroleum Canada, Inc. ("VPCI") and Midnight Oil and Gas Ltd. ("MOG") by Daylight Energy on November 30, 2004 with certain assets conveyed to a new exploration focused entity, Midnight Oil Exploration Ltd. ("MOX"). As a result of the Plan of Arrangement former shareholders of MOG received one Daylight trust unit or one Daylight Energy exchangeable share for each MOG share held as well as 0.5 shares of MOX for each MOG share held.

a) Midnight Oil and Gas Ltd.

On November 30, 2004, pursuant to the Plan of Arrangement, Daylight Energy acquired all the issued and outstanding shares of MOG. The acquisition has been accounted for by the purchase method with oil and gas operating results included in the financial statements commencing November 30, 2004. As part of the Plan of Arrangement options were transferred to Daylight and exercised resulting in the issuance of 1,022,237 trust units. As consideration, former MOG shareholders received 1 trust unit or exchangeable share for each MOG share resulting in the issuance of 22,574,640 trust units and 2,518,497 exchangeable shares, including the exercise of options. The value of the transaction was $240.9 million with fair values as detailed below:

Net assets acquired:	
Petroleum and natural gas assets	$ 109,151
Goodwill	164,707
Bank debt	(41,604)
Working capital	12,459
Asset retirement obligations	(3,471)
Future taxes	(300)
Total net assets acquired	$ 240,942

Consideration:	
Trust units issued	$ 216,764
Non-controlling interest – exchangeable shares	24,178
Total purchase price	$ 240,942

b) Vintage Petroleum Canada, Inc.

On November 30, 2004, pursuant to the Plan of Arrangement, Daylight Energy acquired all the issued and outstanding shares of VPCI. The acquisition has been accounted for by the purchase method with oil and gas operating results included in the financial statements commencing November 30, 2004. The value of the transaction was $350.8 million with fair values as detailed below:

Net assets acquired:	
Petroleum and natural gas assets	$ 328,940
Goodwill	15,864
Cash	39,414
Working capital deficiency	(5,644)
Asset retirement obligations	(13,666)
Future taxes	(14,061)
Total net assets acquired	$ 350,847

Consideration:	
Cash	$ 350,847
Total purchase price	$ 350,847

c) Midnight Oil Exploration Ltd.

Under the Plan of Arrangement, certain assets of Daylight Energy were transferred to MOX. At the time of the transaction, the entities were related and therefore the assets and liabilities of MOX have been transferred on a continuity of interests basis using the following fair value allocations:

Net assets transferred:	
Petroleum and natural gas assets	$ 33,456
Future taxes	195
Working capital	138
Debt assumed	(2,000)
Asset retirement obligations	(542)
Total net assets transferred	$ 31,247

Relationship with MOX

In conjunction with the Plan of Arrangement, Daylight Energy and MOX entered into an Administrative and Technical Services Agreement which provides for the shared services required to manage the activities of MOX and Daylight and to govern the allocation of general and administrative expenses between the entities. Under this agreement, Daylight Energy is the employer on behalf of the parties and receives payment for certain technical and administrative services provided to MOX on a cost recovery basis.

4. Petroleum and Natural Gas Assets

	Cost	Accumulated depletion and depreciation	Net book value
Petroleum and natural gas properties	$ 644,300	$ 85,289	$ 559,011
Other assets	2,570	609	1,961
Balance, December 31, 2005	$ 646,870	$ 85,898	$ 560,972

	Cost	Accumulated depletion and depreciation	Net book value
Petroleum and natural gas properties	$ 408,065	$ 6,970	$ 401,095
Other assets	1,672	38	1,634
Balance, December 31, 2004	$ 409,737	$ 7,008	$ 402,729

During the year ended December 31, 2005, Daylight capitalized $5.6 million ($0.2 million for the period ended December 31, 2004) of general and administrative expenses related to exploration and development activities.

Future development costs of $48.0 million ($23.9 million - 2004) associated with proven reserves were included in the depletion and depreciation calculation. Future salvage value of production equipment and facilities of $25.9 million ($24.6 million - 2004) and a cost of $45.5 million ($32.6 million - 2004) for unproven properties have been excluded from the depletion and depreciation calculation.

At December 31, 2005 Daylight applied a ceiling test to its petroleum and natural gas assets and determined that no impairment has occurred. The ceiling test was calculated using the following expected future market prices:

Benchmark reference price forecast	2006	2007	2008	2009	2010	2011 to 2016
WTI ($US/bbl)	57.00	55.00	51.00	48.00	46.50	46.54
Edmonton Par ($Cdn/bbl)	66.25	64.00	59.25	55.75	54.00	54.00
AECO ($Cdn/mcf)	10.60	9.25	8.00	7.50	7.20	7.17
Exchange rate ($Cdn/$US)	0.85	0.85	0.85	0.85	0.85	0.85

After 2016 the price forecast for WTI, Edmonton Par and AECO escalate at 2% per year to the end of the reserve life and the exchange rate remains constant at 0.85.

5. Bank Debt

Daylight has a total of $170 million available under revolving term credit facilities with a syndicate of banks of which $123.5 million was drawn at December 31, 2005. The effective interest rate for the bank debt was 3.9% for the year ended December 31, 2005 (4.5% for the period ended December 31, 2004). The credit facilities bear interest based on the lenders' prime rate and/or at money market rates plus a stamping fee. The facilities are secured with a demand debenture of $250 million over the petroleum and natural gas assets and are subject to semi-annual review where the lenders may re-determine the borrowing base.

Pursuant to the terms of the credit facilities dated June 29, 2005, Daylight may, with the bank's approval, extend the revolving period for a further 364 day period. If not extended, the revolving facilities will automatically convert to a one year and one day non-revolving term facility with the entire payment due on

the 366th day after commencement of the term period. The credit facility has been classified as long-term on the balance sheet at December 31, 2005.

6. Convertible Debentures

On October 21, 2004 Daylight issued $80 million principal amount of 8.5% Convertible Unsecured Subordinated Debentures (the "Debentures") for net proceeds of $76.8 million. Issue costs of $3.2 million have been classified as deferred financing charges (note 7).

The Debentures pay interest semi-annually on June 1 and December 1 and have a maturity date of December 1, 2009. The Debentures are convertible at the option of the holder to Trust Units at a conversion price of $9.50 per Trust Unit. Daylight has the option to redeem the Debentures at a price of $1,050 per Debenture after December 1, 2007 and on or before December 1, 2008, at a price of $1,025 per Debenture after December 1, 2008 and on or before December 1, 2009 and on maturity at $1,000 per Debenture. On redemption or maturity the Trust may elect to satisfy its obligations to repay the principal and interest obligations by issuing Daylight Energy Trust Units.

The Debentures were initially recorded at the fair value of the obligation without the conversion feature. This fair value to make future payments of principal and interest was determined to be $77.68 million. The difference between the principal amount of $80 million and the fair value of the obligation is $2.32 million and has been recorded in unitholders' equity as the fair value of the conversion feature of the Debentures. The following table indicates the Convertible Debenture activities for the year ended December 31, 2005 and for the period from inception to December 31, 2004:

	Face Value	Debt Component	Equity Component
Issued, October 21, 2004	$ 80,000	$ 77,680	$ 2,320
Accretion and amortization	-	38	-
Balance, December 31, 2004	$ 80,000	$ 77,718	$ 2,320
Accretion and amortization	-	321	-
Conversion to Trust Units	(70,567)	(68,820)	(2,046)
Balance, December 31, 2005	$ 9,433	$ 9,219	$ 274

7. Financial Charges

During the year ended December 31, 2005 and the period ended December 31, 2004, Daylight incurred interest charges on bank debt and convertible debentures as well as the amortization of financial charges and accretion of convertible debenture liability as follows:

	2005	2004
Bank debt interest	$ 4,975	$ 337
Convertible debenture interest	5,088	1,340
Amortization of financial charges	553	62
Accretion of convertible debenture liability	321	38
Total	$ 10,937	$ 1,777

A reconciliation of the deferred financing charges is provided as follows:

	2005	2004
Balance, beginning of period	$ 3,680	$ 3,742
Amortization	(553)	(62)
Conversion to Trust Units	(2,407)	-
Balance, December 31	$ 720	$ 3,680

8. Asset Retirement Obligations

Daylight's asset retirement obligations result from net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. Daylight estimates the total undiscounted amount of cash flow required to settle its asset retirement obligations is approximately $66.9 million ($42.5 million - 2004) which will be incurred between 2006 and 2054. The majority of the costs will be incurred between 2006 and 2021. An inflation factor of 2% has been applied to the estimated asset retirement cost at December 31, 2005 and 2004. A credit-adjusted risk-free rate of 8% at December 31, 2005 and 2004 was used to calculate the fair value of the asset retirement obligations.

A reconciliation of the asset retirement obligations is provided as follows:

	2005	2004
Balance, beginning of period	$ 16,528	$ -
Acquisitions (notes 2 & 3)	3,819	16,595
Liabilities incurred	676	45
Change in estimates	923	-
Liabilities settled	(4,010)	(223)
Liabilities transferred to Open Range (note 10)	(1,192)	-
Accretion expense	1,435	111
Balance, December 31	$ 18,179	$ 16,528

9. Non-Controlling Interest - exchangeable shares

The Trust retroactively applied the amended accounting abstract "Exchangeable Securities Issued by a Subsidiary of an Income Trust" whereby the exchangeable shares issued by the Trust's subsidiary must be reflected as non-controlling interest on the balance sheet. Accordingly, net earnings are reduced by the net income attributed to the non-controlling interest.

Daylight Energy is authorized to issue an unlimited number of exchangeable shares. Exchangeable shares are convertible into trust units based on an exchange ratio, which is adjusted monthly to reflect the distribution paid on the trust units. Cash distributions are not paid on exchangeable shares.

	Number of Shares	Amount (restated note 1)
Exchangeable shares:		
Issued on acquisition of MOG (note 3)	2,518,497	$ 24,178
Retracted for trust units	(20,860)	(201)
Income attributable to non-controlling interest	-	42
Balance, December 31, 2004	2,497,637	$ 24,019
Issued on acquisition of Flowing (note 2)	370,218	4,087
Retracted for trust units	(1,140,568)	(11,345)
Income attributable to non-controlling interest	-	2,661
Balance, December 31, 2005	1,727,287	$ 19,422

The exchangeable shares can be retracted at the option of the holder into trust units at any time. If the number of exchangeable shares outstanding is less than 400,000, the Trust can elect to redeem the exchangeable shares for trust units or an amount in cash equal to the amount determined by multiplying the exchange ratio on the last business day prior to the redemption date by the current market price of a trust unit on the last business day prior to such redemption date. The number of trust units issued upon conversion is based on the exchange ratio in effect on the date of conversion. The exchange ratio is calculated monthly based on the five day weighted average trust unit trading price preceding the monthly distribution record date. The exchange ratio at December 31, 2005 was 1.17462 (1.02491 as at December 31, 2004).

Retraction of Exchangeable Shares

The retraction price will be satisfied with trust units equal to the amount determined by multiplying the exchange ratio on the last business day prior to the retraction date by the number of exchangeable shares redeemed.

Redemption of Exchangeable Shares

On November 30, 2007 the exchangeable shares will be, unless extended by the Board of Directors, redeemed by the Trust. The exchangeable shares may be redeemed by either issuing units or the payment in cash for an amount equivalent to the value of the exchangeable shares at the applicable exchange ratio.

10. Unitholders' Equity

The Trust Indenture provides that an unlimited number of trust units may be authorized and issued. Each trust unit is transferable, carries the right to one vote and represents an equal undivided beneficial interest in any distributions from the Trust and in the assets of the Trust in the event of termination or winding-up of the Trust. All trust units are of the same class with equal rights and privileges.

a) Trust Units

	Number of Units	Amount (restated note 1)
Trust units:		
Issued on Plan of Arrangement (note 3)	22,574,640	$ 185,517
Issued on private placement	18,229,167	175,000
Issued on retraction of exchangeable shares	21,119	201
Unit issue costs	-	(9,078)
Balance, December 31, 2004	40,824,926	$ 351,640
Issued on retraction of exchangeable shares	1,199,964	11,345
Issued on acquisition of Flowing (note 2)	2,783,904	28,996
Issued on acquisition of Tempest (note 2)	9,118,533	106,083
Issued on conversion of debentures	7,428,085	68,459
Issued through DRIP Plan	80,553	941
Unit issue costs	-	(2,336)
Balance, December 31, 2005	61,435,965	$ 565,128

Private Placement

On October 21, 2004 Daylight raised gross proceeds of $175 million by way of a private placement of 18,229,167 Subscription Receipts at a price of $9.60 per Subscription Receipt. On November 30, 2004 each Subscription Receipt converted into one Trust Unit and 0.5 shares of MOX.

Distribution Reinvestment and Optional Trust Unit Purchase Plan ("DRIP")

On August 9, 2005 Daylight announced the implementation of the Distribution Reinvestment and Optional Trust Unit Purchase Plan ("DRIP") for eligible unitholders of the Trust. On distribution payment dates eligible DRIP unitholders may reinvest their cash distributions in additional trust units at a price that is 95% of the 10 day weighted average trading price of Daylight units. Eligible DRIP unitholders may also make optional cash payments on this date to purchase additional trust units at a price that is equal to the 10 day weighted average trading price of Daylight units. During the year ended December 31, 2005 Daylight issued 80,553 trust units from treasury for the DRIP in lieu of cash distributions totalling $941,000.

Redemption Right

Unitholders may redeem their trust units for cash at any time, up to a maximum of $250,000 in any calendar month, by delivering their unit certificates to the Trustee, together with a properly completed notice of redemption. The redemption amount per trust unit will be the lesser of 90 percent of the market price of the trust units on the principal market on which they are traded during the 10 day trading period after the trust units have been validly tendered for the redemption and the closing market price of the trust units on the principal market on which they are traded on the date on which they were validly tendered for redemption, or if there was no trade of the trust units on that date, the average of the last bid and ask prices of the trust units on that date.

b) Net Income Per Unit

The following table summarizes the weighted average trust units, exchangeable shares and convertible debentures used in calculating net income per trust unit:

	2005	2004
Trust units	46,749,577	28,262,340
Exchangeable shares at exchange ratio	2,058,036	1,133,256
Basic	48,807,613	29,395,596
Convertible debentures	6,301,459	8,421,053
Restricted and Performance unit awards	80,298	-
Diluted	55,189,370	37,816,649

Basic net income per unit includes income before non-controlling interest of $66,721,000 for the year ended December 31, 2005 ($1,087,000 for the period ended December 31, 2004). Diluted net income per unit adds back interest, amortization and accretion expense on convertible debentures of $5,854,000 for the year ended December 31, 2005 ($1,428,000 for the period ended December 31, 2004).

c) Unit Award Incentive Plan

Daylight has a Unit Award Incentive Plan which allows the Board of Directors to grant up to 5% of the trust units outstanding, including trust units which may be issued on exchange of exchangeable shares, as Restricted and/or Performance Unit Awards to directors, officers, employees and service providers of Daylight and its affiliates. The Restricted Unit Awards vest over a three-year period. The Performance Unit Awards vest on the third anniversary of the date of the grant. The number of units issued under the Performance Unit Awards granted is also subject to a performance multiplier and is dependent on the performance of the Trust relative to a peer comparison group of oil and gas trusts. A holder of a Restricted or Performance Unit Award may elect, subject to consent of Daylight, to receive cash upon vesting in lieu of the number of units held. The plan provides for adjustments to the number of units issued based on the cumulative distributions of the Trust during the period that the Restricted or Performance Unit Award is outstanding.

	Number
Restricted Awards:	
Balance, December 31, 2004	-
Issued	1,221,850
Cancelled	(177,500)
Balance, December 31, 2005	1,044,350
Weighted average adjustment factor	1.10679
Trust unit equivalent	1,155,879

	Number	Performance Multiplier	Total Number
Performance Awards:			
Balance, December 31, 2004	-	-	-
Issued	322,000	1.33	429,333
Cancelled	(32,000)	1.33	(42,666)
Balance, December 31, 2005	290,000	1.33	386,667
Weighted average adjustment factor			1.06415
Trust unit equivalent			411,471

The performance multiplier is calculated on an annual basis for one third of the performance units originally granted. The performance multiplier may range from 0 to 2 in any given year as determined by the Board of Directors. For the year ended 2005, a performance multiplier of 2 was granted on one third of the units. Daylight has assumed a multiplier of 1 on the remaining units to arrive at the performance multiplier of 1.33, although the final multiplier may range anywhere from 0.67 to 2.

The fair value of the Unit Awards are determined at date of grant and amortized through general and administrative expense over the vesting period as unit based compensation with a corresponding increase to contributed surplus. The weighted average fair value at the date of grant for the Unit Awards granted during the year ended December 31, 2005 was $10.27 per Unit Award and $2,936,000 was charged to general and administrative expense in the period.

d) Contributed Surplus

	Amount
Balance, December 31, 2004	$ -
Unit based compensation	2,936
Balance, December 31, 2005	$ 2,936

e) Accumulated Distributions

The table below shows the cumulative distributions:

Record Date	Distribution Per Unit	Amount
November 30, 2004	$ 0.12	$ 4,878
December 31, 2004	0.12	4,899
Total 2004 distributions	$ 0.24	$ 9,777
January 31, 2005	0.12	4,920
February 28, 2005	0.12	5,001
March 31, 2005	0.12	5,041
April 29, 2005	0.12	5,405
May 31, 2005	0.12	5,438
June 30, 2005	0.12	5,441
July 29, 2005	0.12	5,456
August 31, 2005	0.12	5,466
September 30, 2005	0.12	6,101
October 31, 2005	0.14	7,177
November 30, 2005	0.14	8,538
December 31, 2005	0.14	8,601
Total 2005 cash distributions	$ 1.50	$ 72,585
Open Range distribution (cost base)	0.31	15,235
Total 2005 distributions	$ 1.81	$ 87,820
Cumulative distributions	$ 2.05	$ 97,597

As part of the Plan of Arrangement involving Daylight Energy Trust, Daylight Energy Ltd., Tempest Energy Corp., 1198311 Alberta Ltd., 1198249 Alberta Ltd., Open Range Finance Corp., the unitholders and convertible debentureholders of Daylight Energy Trust, the exchangeable shareholders of Daylight Energy Ltd., the shareholders of Tempest Energy Corp., and the shareholders of Open Range Finance Corp., Daylight Energy disposed of interests in certain oil and gas properties in exchange for Open Range Energy Corp. common shares and Open Range Arrangement Warrants ("the Open Range securities"). At the time of transfer, Daylight and Open Range were considered related parties and the disposition was recorded at the carrying value. The fair value of properties disposed of was $18,420,000. Daylight in turn distributed the securities to unitholders, exchangeable shareholders, and convertible debentureholders with each securityholder receiving 0.10 Open Range common share and 0.02 Open Range Arrangement Warrant with a deemed fair value of $0.31 per Trust unit equivalent. The disposition of the carrying value was recorded as follows:

Petroleum and natural gas assets	$ 14,636
Future taxes	1,791
Asset retirement obligations	(1,192)
Total	$ 15,235

11. Taxes

The combined provision for taxes in the consolidated statements of income and deficit reflect an effective tax rate which differs from the expected statutory tax rate. Differences are accounted for as follows:

	2005	2004
Income before taxes and non-controlling interest	$ 66,214	$ 70
Statutory income tax rate	37.62%	38.62%
Expected taxes	$ 24,910	$ 27
Add (deduct):		
Net income of the Trust	(21,568)	(1,309)
Non-deductible crown charges	10,321	961
Resource allowance	(11,723)	(740)
Future tax rate reductions	(1,478)	(74)
Stock based compensation	1,105	-
Capital taxes	1,467	92
Other	(3,541)	26
Period ended December 31	$ (507)	$ (1,017)

Future Taxes

The future tax liability at December 31 is comprised of the tax effect of temporary differences as follows:

	2005	2004
Petroleum and natural gas assets	$ 62,920	$ 29,752
Asset retirement obligations	(5,867)	(5,950)
Non-capital loss carry-forwards	(11,485)	(2,494)
Share issue costs	(1,464)	(1,156)
Attributed Canadian Royalty Income	(10,806)	(6,705)
Deferred partnership income	12,562	-
Balance, December 31	$ 45,860	$ 13,447

At December 31, 2005, Daylight Energy and its subsidiaries had $33.8 million of non-capital loss carry-forwards ($6.9 million as at December 31, 2004). The non-capital loss carry-forwards expire $1.1 million in 2006, $2.5 million in 2007, $3.2 million in 2008, $6.7 million in 2009 and $20.3 million in 2011.

At December 31, 2005, for the entities not subject to tax, the tax base exceeds the book amounts by $10,445,000.

12. Supplemental Cash Flow Information

	2005	2004
Changes in non-cash working capital:		
Accounts receivable	$ (33,820)	$ (27,551)
Prepaid expenses and deposits	(372)	(955)
Accounts payable and accrued liabilities	36,245	44,427
Unrealized loss on commodity derivatives acquired on acquisition (note 2)	(2,101)	-
Working capital acquired on acquisitions (note 2)	(16,015)	6,677
Change in non-cash working capital	$ (16,063)	$ 22,598
Relating to:		
Operating activities	$(11,653)	$ 2,418
Financing activities	(704)	4,899
Investing activities	(3,706)	15,281
Change in non-cash working capital	$ (16,063)	$ 22,598

	2005	2004
Interest and taxes paid:		
Interest paid	$ 10,349	$ 1,081
Taxes paid	$ 2,365	$ -

13. Financial Instruments

Fair Value of Financial Instruments:

Financial instruments comprise accounts receivable, prepaid expenses and deposits, accounts payable and accrued liabilities and cash distributions payable. The fair values of these financial instruments approximate their carrying amounts due to their short-term maturities. The Trust's long-term debt bears interest at a floating market rate and accordingly the fair market value approximates the carrying value. The convertible debentures outstanding at December 31, 2005, with a face value of $9.4 million, had a fair value based on quoted market value of $12.3 million.

Commodity Price Risk:

Daylight acquired the following commodity derivative financial instrument on the acquisition of Flowing and has applied mark-to-market accounting during 2005. There are no commodity derivative financial instruments outstanding at December 31, 2005.

Contract	Volume	Pricing Point	Fixed Price	Term
Forward sale	500 bbls/day	CDN$ WTI/bbl	CDN$ 52.70/bbl	January 01/05 to December 31/05

Credit Risk:

Portions of the Trust's accounts receivable are with joint operating partners in the oil and gas industry and are subject to normal industry credit risks. Purchasers of the Trust's oil and natural gas products are subject to an internal credit review designed to mitigate the risk of non-payment.

Interest Rate Risk:

The Trust is exposed to interest rate risk to the extent that changes in market interest rates will impact the Trust's bank debt which is subject to a floating interest rate. The Trust had no interest rate swaps or financial hedges at December 31, 2005.

Foreign Currency:

While substantially all of the Trust's sales are denominated in Canadian dollars, the market prices in Canada for oil and natural gas are impacted by changes in the exchange rate between the Canadian and United States dollar.

14. Commitments

	2006	2007	2008	2009	2010	2011
Office leases	$ 1,791	$ 1,861	$ 1,801	$ 1,767	$ 1,767	$ 762
Natural gas transportation	872	758	175	88	-	-
	$ 2,663	$ 2,619	$ 1,976	$ 1,855	$ 1,767	$ 762

15. Related Party

Pursuant to the Administrative and Technical Services Agreement, Daylight Energy charged MOX $995,000 relating to general and administrative activities for the year ended December 31, 2005 ($110,000 for the period ended December 31, 2004) and $1,627,000 relating to capital expenditures for the year ended December 31, 2005 ($99,000 for the period ended December 31, 2004). The Administrative and Technical Services Agreement has no set termination date and will continue until terminated by either party with three months written notice to the other party. At December 31, 2005 Daylight had a receivable of $4.0 million ($0.2 million – 2004) from MOX, $0.9 million relating to the Technical Service Agreement and $3.1 million relating to joint venture activities. This receivable was collected within the terms of the agreement and in accordance with normal industry standards.

Corporate Information

Board of Directors

FRED WOODS
Executive Chairman,
Daylight Energy
Calgary, Alberta

ANTHONY LAMBERT
President and
Chief Executive Officer,
Daylight Energy
Calgary, Alberta

RICK ORMAN (1) (2) (3) (4) (5) (6)
Chairman and
Chief Executive Officer,
Runnymede Resources Corp
Calgary, Alberta

PETER HARRISON (2) (3) (4) (5) (6)
Senior Vice President,
Canadian Equities,
Montrusco Bolton
Brossard, Quebec

DUANE KEINICK (2) (3) (4) (5) (6)
Independent Businessman
Calgary, Alberta

JEFF TONKEN (2) (3) (4) (5) (6)
President and
Chief Executive Officer,
Birchcliff Energy Ltd.
Calgary, Alberta

Position or Member of the following Committees
1 Lead Director
2 Audit
3 Reserves
4 Compensation
5 Technical Services and Corporate Governance
6 Environmental Health & Safety

Officers

FRED WOODS
Executive Chairman

ANTHONY LAMBERT
President and
Chief Executive Officer

BRENT ESHLEMAN
Vice President,
Engineering and Exploitation

RANDY FORD
Vice President, Operations

STEVE HORNER
Vice President, Business Services

DALE MENNIS
Vice President,
Business Development

STEVE NIELSEN
Vice President, Finance and
Chief Financial Officer

CHRIS VON VEGESACK
Corporate Secretary,
Burnet, Duckworth & Palmer LLP

Bankers
Canadian Imperial Bank of Commerce
Bank of Nova Scotia
BNP Paribas

Legal Counsel
Burnet, Duckworth & Palmer LLP
Calgary, Alberta

Auditors
KPMG LLP
Chartered Accountants
Calgary, Alberta

Evaluation Engineers
GLJ Petroleum Consultants Ltd.
Calgary, Alberta

Registrar and Transfer Agent
Valiant Trust Company
Calgary, Alberta

Stock Exchange Listing
The Toronto Stock Exchange
Trading Symbols: DAY.UN and DAY.DB

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Abbreviations

/d	per day	mboe	thousand barrels of oil equivalent
bbl(s)	barrel(s)	mmboe	million barrels of oil equivalent
mbbls	thousand barrels	mmstb	million stock tank barrels of oil
mmbbls	million barrels	ARTC	Alberta Royalty Tax Credit
mcf	thousand cubic feet	Cdn	Canadian
mmcf	million cubic feet	NGLs	natural gas liquids
bcf	billion cubic feet	WTI	West Texas Intermediate crude oil
boe	barrels of oil equivalent	US	United States

Boe means barrel of oil equivalent, using the conversion factor of 6 mcf of natural gas being equivalent to one barrel of oil. Boes may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

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